

1990

## CPA letter, 1990

American Institute of Certified Public Accountants

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_news](https://egrove.olemiss.edu/aicpa_news)

Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Recommended Citation

American Institute of Certified Public Accountants, "CPA letter, 1990" (1990). *Newsletters*. 135.  
[https://egrove.olemiss.edu/aicpa\\_news/135](https://egrove.olemiss.edu/aicpa_news/135)

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Newsletters by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

January 19, 1990  
Vol. 70 No. 1

# The CPA Letter

**A Membership News Report Published by the AICPA**

## **AICPA Members Overwhelmingly Vote for Mandatory SECPS Membership**

By a more than a six to one margin AICPA members have approved a proposed bylaw amendment that requires public accounting firms with SEC clients to belong to the Institute's SEC Practice Section. The balloting ended on January 8.

The final tally was 86.9 percent in favor of the proposal (129,119 to 19,418), far exceeding the two-thirds majority of votes required to pass the proposal.

The bylaw change means that public accounting firms with AICPA members must be members of the AICPA's SEC Practice Section if the firm audits any companies that are SEC registrants. This section has programs to maintain and improve the quality of independent audits of publicly held companies through special membership requirements, peer review and public oversight.

"SECPS membership helps ensure that firms continue to protect the public interest when auditing SEC-registered clients," commented AICPA Chairman of the Board Charles Kaiser, Jr. "We thank members for voting 'yes' on this important self-regulatory proposal and commend the leaders of the state CPA organizations for their hard work in informing members about the issue."

AICPA President Philip B. Chenok added, "Passage of this measure reflects our members' commitment to quality, independence and the integrity of the financial reporting process. It is further testimony to the desire of all AICPA members to render superior service to their clients, employers and all who benefit from their work."

## **FASB Issues Cash Flows Statement**

The FASB has issued its Statement 104, which permits banks, savings institutions and credit unions to report in a statement of cash flows net cash receipts and payments for deposits placed and withdrawn, time deposits accepted and repaid, and loans made and collected.

Statement 104, *Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions*, amends FASB Statement 95 which was issued in 1987.

## **GASB Issues Research Report on Education**

The Governmental Accounting Standards Board has published a research report, *Elementary and Secondary Education*, on reporting service efforts and accomplishment indicators for elementary and secondary education. These efforts are intended to provide information about the "results of operations" of a governmental entity or program to communicate what citizens are getting from the use of public funds and how efficiently and effectively those funds are used.

The report reviews current practices and makes recommendations for experimentation with external reporting of service efforts and accomplishment indicators.

## **CPE Requirements to Appear with Journal**

As part of the Plan to Restructure Professional Standards, there are new continuing professional education requirements for members of the AICPA, effective January 1, 1990. They apply to all members except those who have retired.

Policies explaining the new requirements will be sent to members with the February issue of the *Journal of Accountancy*.

## Highlights of Committee Meetings

### Accounting Standards

At its December meeting, the accounting standards executive committee:

- ☐ Approved issuance of a letter of comment on the international accounting standards committee's proposed statement, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, generally supporting the statement;
- ☐ Discussed a draft comment letter from the AICPA's not-for-profit organizations committee on the FASB's invitation to comment on *Financial Reporting by Not-for-Profit Organizations: Form and Content of Financial Statements*. AcSEC suggested that its members' views be obtained by questionnaire for further consideration;
- ☐ Discussed the report of the FAF's structure committee on *Financial Accounting Standards Board Voting Procedures*, which recommends that approval of FASB pronouncements be changed to a supermajority vote (5-2).

### Auditing Standards

At its December meeting, the auditing standards board:

- ☐ Agreed to issue an exposure draft of a proposed statement of auditing standards (SAS), *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, with a comment period that will extend through May 1990;
- ☐ Reviewed a proposed amendment to SAS no. 61, *Communication With Audit Committees*. It would expand the auditor's communication responsibility to matters dealing with interim engagements and certain section 12 (i) financial institutions;
- ☐ Considered a revised draft of SAS no. 44, *Special Purpose Reports on Internal Accounting Control at Service Organizations*, that incorporates terminology of SAS no. 55, *Consideration of the Internal Audit Control Structure in a Financial Statement Audit*;
- ☐ Reviewed a proposed revision to SAS no. 49, *Letters for Underwriters*, that would limit such letters to due diligence responsibilities under the Securities Act of 1933.

### Professional Ethics

At its December meeting, the professional ethics executive committee adopted:

- ☐ Interpretations 101-11 under Rule 101, *Independence and Attest Engagements* specifying independence requirements when a firm performs an attest engagement not subject to audit, review, compilation or prospective financial information standards;
- ☐ Interpretation 301-1, *Confidential Information and Purchase, Sale or Merger of a Practice*, Specify a member's obligation to protect the confidentiality of client information during purchase, sale or merger negotiations;
- ☐ Rulings no. 73 under Rule 101, *Meaning of the Period of a Professional Engagement*, defining the engagement period for independence purposes as starting when services are performed and ending with the termination of the professional relationship;
- ☐ Ruling no. 74 under Rule 101, *Audits, Reviews, or Compilations and a lack of Independence*, that provides that a member who is not independent with respect to a client may issue a compilation report disclosing lack of independence and may not issue an audit opinion or review report.

### Quality Review

At its November meeting, the quality review executive committee:

- ☐ Agreed to postpone all 1990 off-site reviews until 1991;
- ☐ Accepted proposals for reducing costs, including permitting sole practitioners with no professional staff to take their working papers to the reviewer's location for review;
- ☐ Approved revisions to the second edition of the *State Society Quality Review Program Administrative Manual*, and approved a technical reviewer's checklist and an optional administrative review checklist;
- ☐ Approved updates to the audit, review and compilation engagement checklists for 1989 pronouncements.

**SOP Issued on  
Internal Control**

Statement of Position (SOP) 89-7, *Report on the Internal Control Structure in Audits of Investment Companies* (014838), revises the report on internal control required by the SEC. The SOP amends the audit and accounting guide, *Audits of Investment Companies*, to reflect the changes required by SAS no. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit*. The statement presents the recommendations of the AICPA's investment companies committee.

The price is \$4.75, \$3.80 to members, and is available from the order department, 800/334-6961 (US), 800/248-0445 (NY).

**Layton is Winner of  
McCloy Award**

The Public Oversight Board has presented its John J. McCloy Award for outstanding contributions to the quality of the auditing profession to LeRoy Layton, a past president of the AICPA (title later changed to Chairman of the Board). Mr. Layton was recognized for his four decades of contributions to the accounting profession and to the improvement of the audit process, including his service on the Accounting Principles Board (the FASB predecessor) and in the area of quality control.

**Clarification of Tax  
Guides and  
Checklists**

The announcement of the availability of the AICPA's 1989 Tax Practice Guides and Checklists (see December 1989 *Letter*) incompletely described one of the versions that can be ordered. They can be obtained in the following formats:

- ☐ Print version (product number 059503) which was automatically sent to members of the tax division;
- ☐ APG2 version on diskette (016828) which is part of the APG software series;
- ☐ WordPerfect version on diskette (059518).

Each of these versions is priced at \$40; \$32 to members, plus \$4.95 shipping and handling charges and applicable taxes. To order, write to Tax Checklists, AICPA, P.O. Box 1036, New York, New York 10108-1036.

**AICPA Members  
Appointed to  
Accounting Council**

Three AICPA members have been appointed to membership on the Financial Accounting Standards Advisory Council. The Council consults with the FASB on major policy questions, technical issues and other matters. The new members are LeRoy E. Martin, managing partner of McGladrey & Pullen; Robert G. McLendon, national director of accounting for Ernst & Young; and Roman L. Weil, professor of accounting at the University of Chicago Graduate School of Business.

**AICPA Committee  
Members Sought**

Members who wish to volunteer for one of the approximately 600 AICPA committee openings that are expected to become available starting in October 1990 should write Torry Berntsen at the Institute. She will supply a booklet listing current committees, their objectives, approximate time commitment and a biographical form which will supply the necessary information for consideration by the incoming chairman of the board. The biographical form should be returned by February 15, 1990, in order to be considered for the 1990-91 committee year.

**NOTICE OF AICPA PUBLIC MEETING**

Auditing Standards—A meeting of the auditing standards board will be held on February 6 (p.m.) and 7 (all day) in the AICPA boardroom in New York. The agenda follows:

- ☐ *February 6*—Discussions of an issues paper on alternative means for reporting on an entity's internal control structure and on a proposed revision to SAS no. 44, *Special Reports on Internal Accounting Controls at Service Organizations*, regarding service center-produced records;
- ☐ *February 7*—Discussions of a proposed amendment to SAS no. 61, *Communication with Audit Committees*, to expand the auditor's communication responsibilities, and on technical amendments to various SASs.



## Washington Briefs

**CPAs Sought for Leadership Positions at HUD**—Citing major fiscal deficiencies at the Housing and Urban Development Department and the need for qualified professionals to rectify the problems, Secretary Jack Kemp has announced a nationwide search for six outstanding CPAs to form HUD's "new core of financial accountability." The career positions include a chief financial officer at the assistant secretary level and five senior comptrollers who will report to the assistant secretary of their particular division. B.Z. Lee, AICPA deputy chairman for Washington affairs, has been appointed to a special advisory screening group that will recommend candidates for the new positions. HUD is first looking for candidates for the positions of CFO and comptroller for the Federal Housing Administration. For further information, contact HUD at 202/755-0381.

**New Head of SEC Enforcement**—William R. McLucas has been appointed the new director of the SEC Division of Enforcement. In making the announcement, SEC Chairman Richard C. Breendon pledged that "securities and other types of financial fraud against investors will continue to be investigated and prosecuted with vigor and determination." Previously, Mr. McLucas served as the division's associate director.

**SBA Publishes Rules on Small Business Size Standards**—The Small Business Administration (SBA) has published final and interim final rules on small business size standards in the December 21 issue of the *Federal Register*. A previously proposed regulation governing the procedural rules relative to SBA's size determination program is now promulgated in final form, except for sections 121.403 and 121.1202(a) which define "business concern or concern" for the purpose of SBA programs. These two sections are issued as interim final rules, on which comments are requested no later than February 20.

**OTS Issues Guidelines for Capital-Deficient Savings Institutions**—Further guidelines for capital deficient savings institutions to meet the new capital requirements have been issued by the Office of Thrift Supervision (OTS) in Thrift Bulletin 36-1. The guidelines advise thrifts on looking ahead at three factors that must be taken into account in drafting an institution's capital attachment plan: interest rates, the rate that mortgage loans will be paid ahead of schedule, and how many new loans an institution is likely to make. Copies are available by calling the OTS at 202/566-4633.

**Five CPAs Appointed to IRS Advisory Group**—AICPA Vice President for Federal Taxation Donald H. Skadden has been appointed to the IRS Commissioner's 1990 Advisory Group. The other CPAs, all AICPA members, are: Steven J. Brown, St. Louis; S. Hunter Howard, Jr., Columbia, South Carolina; James R. Mogle, Detroit; and Jon E. Price, Denton, Texas.

---

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

February 5, 1990  
Vol. 70 No. 2

# The CPA Letter

---

**A Membership News Report Published by the AICPA**

---

## **AcSEC Proposes SOP on Debt Securities**

Proposed new criteria for reporting by financial institutions on debt securities held for sale at the lower of cost or market value were approved at the January meeting of the accounting standards executive committee. The proposed statement of position is subject to clearance of final changes by AcSEC and review by the FASB. It is expected to be exposed for public comment in March and will apply to banks, savings and loan associations, credit unions, insurance companies and finance companies. These entities will have to treat debt securities as being held for sale, and record losses if market falls below cost, if they can't hold the debt securities until maturity or if they don't intend to hold them for at least a year.

According to AcSEC Chairman John L. Kreischer, "The criteria for determining whether debt securities are being held for investment have been inconsistently interpreted and we are leveling the playing field so that all financial institutions will report debt securities held as assets in a similar manner."

The committee makes clear that the auditor should assess the financial institution's ability to hold such securities and provides guidelines for demonstrating the intent to hold. The committee has been supported by the SEC, FASB and various financial regulatory bodies as it developed guidance in this area.

## **Two International Pronouncements Proposed**

The International Accounting Standards Committee (IASC) has issued its Exposure Draft 35, *Financial Reporting of Interests in Joint Ventures*. The ED deals with accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses regardless of the structure or form of the particular joint venture. Comments are due by May 31. For copies, write to the AICPA order department and request product number G00305.

The International Federation of Accountants (IFAC) has released an exposure draft of International Management Accounting Practice 4, *Cost of Capital*. (G003991).

The proposal presents an overview of the concept of cost of capital with particular reference to its methods of calculation and to its uses. The emphasis has been placed on practical application and seeks views on cost of capital calculations and multinational implications. Comments are due by May 15. Copies are available by writing to the AICPA order department.

## **CPAs Rate the IRS**

A recent poll of over 1,000 CPA practitioners by the AICPA found that the IRS has communication problems and a lack of technical knowledge at its lower personnel levels. However, high marks were given for courtesy and a willingness to try and resolve problems.

"The problem areas seem to be the result of budgetary constraints which prevent adequate staff training," said Donald H. Skadden, AICPA vice president—taxation. "On the other hand, the strong showing in courtesy and willingness to cooperate reflects the emphasis the IRS has placed on these areas," he added.

The general attitude of over half the respondents toward the IRS is "very" or "moderately" unfavorable, almost identical to the attitudes held by tax practitioners three years ago, the survey disclosed.

## Recent Disciplinary Actions

The following actions have been recently taken under the automatic disciplinary provisions of the Institute's bylaws:

- ☐ Peter Stefanou of McLean, Virginia, was advised of his expulsion from membership on July 31 due to his conviction in a federal court on his plea of guilty to tax evasion and aiding in the filing of false tax returns. He requested that the automatic bylaw provision terminating his membership not apply due to extenuating circumstances and offered to resign from membership in the AICPA. An ad hoc committee of the Joint Trial Board met on October 6, 1989, and voted not to accept his resignation and to deny his request. His expulsion, therefore, became effective on October 6, 1989;
- ☐ Shelvin E. Byars of Los Angeles, California, was expelled on October 2, 1989, due to his conviction in a federal court on his plea of guilty to assisting in the preparation of false tax returns;
- ☐ Glenn A. Main III of Pittsburgh, Pennsylvania, was suspended from membership on October 2, 1989, pending the appeal of his conviction in a federal court of filing false loan statements with federally insured banks;
- ☐ The membership of Paul M. Dorsey of West Hartford, Connecticut, was terminated on October 2, 1989, following the revocation of his CPA certificate by the Connecticut State Board of Accountancy for multiple failures to return client records;
- ☐ The membership of Clifford Edwin Hey of Ventura, California, was terminated on October 20, 1989, following his conviction in California Superior Court of grand theft, preparing false evidence and perjury;
- ☐ Gary W. Oldham of Federal Way, Washington, was expelled on October 20, 1989, following the revocation of his CPA certificate by the State of Washington Board of Accountancy for two counts of "conduct amounting to dishonesty and fraud in the practice of public accounting";
- ☐ Stanley R. Moskowitz of Cherry Hill, New Jersey, was expelled on October 25, 1989, due to his conviction in a U. S. District Court on his plea of guilty to "conspiring to suppress and eliminate competition for the award of a refuse service contract which restricted interstate and foreign commerce";
- ☐ The membership of Ronald Lederman of Beverly Hills, California, was terminated on November 7, 1989, following his conviction in a Municipal Court of Los Angeles of failure to file a tax return with intent to evade a tax.

At a meeting of a hearing panel of the Joint Trial Board in Los Angeles on June 13, 1989, Eugene Rosenberg of North Bay Village, Florida, was expelled from membership in the AICPA and the Florida Institute of CPAs for failing to respond to interrogatories of the Florida Institute's professional ethics committee in an investigation of his activities.

Mr. Rosenberg, who was not present at the hearing but was advised in writing of the hearing panel's decision, requested a review of the decision before it became effective. An ad hoc committee of the Joint Trial Board met on October 6, 1989, and voted to deny his request. Mr. Rosenberg's expulsions from membership in the AICPA and the Florida Institute of CPAs therefore became effective on October 6, 1989.

## **Tax Forms Comments Sought**

As part of its pending project to comment on the advance proof copies of 1990 tax forms, the tax division's tax forms subcommittee would like to enlist your help in identifying problems with the 1989 forms. As you prepare tax returns for this filing season, please jot down any form problems you encounter while they are fresh in your mind and send your comments, after April 15, to Edward S. Karl, Form Suggestions, AICPA, 1455 Pennsylvania Avenue, NW, Washington, D.C. 20004.

Your suggestions will be incorporated in the subcommittee's comments on the proof forms that will be released starting in June.

## **Strait and Elam Appointed to Education Commission**

A. Marvin Strait, a former AICPA board chairman, and Rick Elam, vice president—education of the AICPA, have been appointed to the Accounting Education Change Commission (AECC).

The commission, an arm of the American Accounting Association, is charged with fostering changes proposed in two recent studies that concluded that accounting students are not receiving the academic preparation necessary to meet today's increasingly complex business environment. The AECC will hold conferences, make curriculum development grants to colleges and universities, and generally promote revisions to accounting education.

## **FAF Trustees Elect New Officers**

The board of trustees of the Financial Accounting Foundation, which is responsible for selecting the members, funding activities and exercising general oversight of the Financial Accounting Standards Board, the Governmental Accounting Standards Board and their respective advisory councils, has elected officers for 1990. All CPAs, they are:

- ☐ *President:* Reelected was John F. Ruffle, vice chairman and a director of J. P. Morgan & Co. Incorporated and Morgan Guaranty Trust Company of New York;
- ☐ *Vice President:* Robert A. Mellin, consultant and former senior partner, Hood and Strong;
- ☐ *Secretary-Treasurer:* Shaun F. O'Malley, chairman and senior partner, Price Waterhouse.

Six new trustees were also appointed for three-year terms beginning January 1, 1990.

## **National Marketing Conference Set**

The AICPA 1990 National Marketing Conference will be held on June 6-8 at the Sheraton Grande Torrey Pines in La Jolla, California.

It will open with a session addressed to critical marketing issues and include both general and concurrent sessions. Carl George, a former AICPA MAP committee chairman, is the conference moderator and guest speakers include Ron Frandsen, Chris Frederiksen, Allan Koltin, John Retterer and Judy Trepeck.

For further information, contact the AICPA industry and practice management division at 212/575-3814.

### **NOTICE OF AICPA PUBLIC MEETING**

#### **Quality Review**

An open meeting of the quality review executive committee will be held in the AICPA offices in New York on February 26, starting at 8:00 a.m. The agenda follows:

*Monday, February 26 a.m.*

Administrative Fees; Report on Request for the Program's Approval by the REA; Guidelines for Acceptance of Quality Review Reports; Report on AICPA CPE Program;

*Monday, February 26 p.m.*

Oversight of State CPA Societies; Consideration of State CPA Societies and Association of CPA Firms' Request for Participation in the Administration of 1990 On-Site Quality Reviews.

## Washington Briefs

**SEC Asked to Ignore Pressures Concerning FASB**—In a letter to SEC Chairman Richard Breeden, Congressman Richard Dingell (D-Mich.), chairman of the oversight and investigations subcommittee of the House Energy and Commerce Committee, urged the Securities and Exchange Commission to ignore business pressures to slow the rule-making or more closely monitor the FASB. Dingell said he is concerned that the FASB "is the target of an external political pressure campaign by certain elements of the business community."

**IRS Says Poison Pill Plan Is Not a Distribution**—The IRS holds in Rev. Ruling 90-11 that the adoption by a corporation's board of directors of a poison pill plan providing shareholders with the right to purchase additional shares of stock following a triggering event does not constitute a stock or property exchange or distribution, or other realization of gross income by any taxpayer. This ruling appears in the February 5 Internal Revenue Bulletin 1990-6.

**OCC Seeks Accounting Fellows**—The Office of the Comptroller of the Currency (OCC) is accepting applications for its professional accounting fellowship program. Two candidates will be selected for two-year terms; the first beginning in April 1990, and the other in October 1990. Each applicant should be a CPA, have a minimum of five years in public accounting, and have experience in providing services to or working in the banking industry. Also, each applicant should have one or more years of public accounting experience at the managerial level. Additional information can be obtained by calling either Randall Black or Douglas Burr at 202/447-0471.

**OTS Issues Thrift Bulletin**—The Office of Thrift Supervision (OTS) has issued Thrift Bulletin 38-2 containing guidance to savings associations on the status of capital and accounting forbearances and capital instruments held by a deposit insurance fund. Copies of the bulletin are available by calling the OTS at 202/906-6677, as are copies of Bulletin 36-1 for which an incorrect number appeared in the January 19 *Letter*.

**IRS Issues Notice on Magnetic Media Reporting**—In Notice 90-15, the IRS implements changes under the fiscal 1990 budget reconciliation law on magnetic media filing. The notice will appear in the February 12 Internal Revenue Bulletin 1990-7.

**Publication on Alternative Withholding Now Available**—The 1990 revision of IRS Publication 493, *Alternative Tax Withholding Methods and Tables*, is now available. It contains alternative methods of computing tax withholding tables, and new combined tax and employee Social Security tax withholding tables for wages paid after December 1989. To order, call 800/424-3676.

---

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

February 22, 1990  
Vol. 70 No. 3

# The CPA Letter

**A Membership News Report Published by the AICPA**

---

## **Highlights of Board of Directors Meeting**

At its meeting on February 8-9, the AICPA board of directors:

- ☐ Received the report from the governance and structure committee and decided to schedule a discussion at the regional meetings of Members of Council in March;
- ☐ Received a request from the MAP committee for authorization to form a voluntary MAP member section within the Institute. The board deferred action pending Council's receipt of the governance and structure committee's report;
- ☐ Declined a request from the personal financial planning executive committee for authorization to issue enforceable standards on the basis that the existing code of professional ethics offers adequate protection to the public with respect to PFP practitioners. The committee was urged to continue its program of issuing guidance to members on PFP practice;
- ☐ Declined to authorize publication of a directory listing the approximately 375 members who have earned the Accredited Personal Financial Specialist credential. Authorized the staff to respond to individual inquiries relating to those who have achieved the APFS;
- ☐ Ratified a recommendation of the CPE executive committee that the AICPA not register at this time in the NASBA *National Registry of CPE Sponsors*;
- ☐ Approved revised operating policies for the AcSEC. Among other matters, the new policies clarify procedures for issuing statements of position and practice bulletins not otherwise covered in FASB or GASB literature;
- ☐ Learned that the names of approximately 3,200 reviewers are in the data base for Quality Assurance Review purposes. Identification of qualified reviewers will continue until the goal of 5,000 is achieved (see separate story).

## **FASB to Vote on Financial Instrument Disclosure Statement**

At a recent meeting, the FASB decided that payables and other debt denominated in foreign currency should be exempted from the scope of a final statement on financial instrument disclosures. These obligations will be included in the list of instruments that are exempted because other existing accounting and disclosure requirements apply. Recorded obligations for short sales will be included in the scope of the final statement. The Board agreed to vote by written ballot this month on the issuance of a final statement. If approved, the statement is expected to be issued in March.

## **GASB Issues Pension Exposure Draft**

The Governmental Accounting Standards Board has issued for public comment a proposed statement that would establish standards for accounting for pensions by state and local government employers. Comments are due by May 31.

The proposed statement would require employers to recognize pension expenditure/expense on an accrual basis in all fund types used to account for an employer's pension contributions. For employers participating in a defined benefit plan, pension expenditure/expense would be measured according to parameters specified in the proposal.

A public hearing has been scheduled for May 2 in Cincinnati. If adopted, the proposal would become effective for fiscal years beginning after June 15, 1994.

## Recent IFAC Publications

Two exposure drafts have been issued by the international auditing practices committee of the International, with comments due by March 31:

- ☐ ED 33, *Additional Guidance on—Attendance at Inventory Locations and Confirmation of Accounts Receivable and Inquiry Regarding Litigation and Claims* (AICPA product number G00470). This is a proposed addendum to IAG 8, Audit Evidence. The purpose of the proposal is to provide detailed guidance on obtaining audit evidence by attendance and confirmation. Write to the AICPA order department;
- ☐ *Engagements to Compile Financial Information*, ED 34, (G00471) is a proposed International Auditing Guideline/Related Service. It describes the basic principles and general guidelines to be followed when an auditor undertakes an engagement to compile financial information. For copies, write to the AICPA order department. Four International Guideline Statements are available from the order department:
- ☐ *Particular Considerations in the Audit of Small Businesses* (019436), \$2.50; \$2.00 to members. The purpose is to assist auditors in applying IAGs in situations typically found in small business;
- ☐ *Going Concern* (019239) is a revised International Auditing Guideline 23. It provides guidance to auditors when the going concern assumption is in question. Price is \$4.75; \$3.80 to members;
- ☐ IAG 13 (Revised), *The Auditor's Report on Financial Statements* (019135). Price is \$4.75; \$3.80 to members;
- ☐ International Statement on Auditing, *The Relationship Between Bank Supervisors and External Auditors* (019436), seeks to remove possible misconceptions in this area. Price is \$2.50; \$2.00 to members.

The above pronouncements can be obtained from the AICPA order department by calling 800/334-6961 (US); 800/248-0445 (NY).

## AICPA Publications and Aids

SOP 90-2, *Report on the Internal Control Structure in Audits of Futures Commission Merchants*, (014839) amends the SOP, *Audits of Brokers and Dealers*, by revising the illustrative report on internal control as required by the CFTC. The effective date is for reports issued on or after March 1, 1990. The price is \$4.75; \$3.80 to members.

The *Quality Review Program Manual* subscription service is now available in full-size paperback form containing the full text of the loose-leaf service and all supplements through January 1, 1990. The paperback version (product number 019001) is \$36.00; \$28.80 to members.

*Estate Planning: Protecting Your Family* (890819) is the latest addition to the Consumer Guide Series. It is a general brochure for existing or potential clients. The cost is \$12 per 100.

Additional brochures in the series are:

- ☐ *Retirement Planning: Achieving Financial Security for Your Future* (890803);
- ☐ *Saving for College: Easing the Financial Burden* (890818), priced at \$12/100.

Corresponding speeches for these brochures are:

- ☐ *Estate Planning Tips for Individuals* (890560);
- ☐ *Achieving Financial Security for Your Future* (890630);
- ☐ *Planning and Saving for Your Child's College Years* (890822).

These speeches are \$3.00 each, prepaid, through the AICPA order department, P.O. Box 1003, New York, New York 10108-1003.

The other publications are available from the order department by calling 800/334-6961 (US); 800/248-0445 (NY).

## NOTICE TO PRACTITIONERS

### Effects of FASB Statements Nos. 87 and 104 on the Auditor's Standard Report

This notice from the AICPA Auditing Standards Division provides guidance on the independent auditor's report relative to FASB Statements no. 87, *Employers' Accounting for Pensions*, and no. 104, *Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions*.

#### **FASB Statement No. 87**

FASB Statement no. 87 generally is effective for fiscal years beginning after December 15, 1986, except for the provisions of paragraphs 36 through 38. The provisions of those paragraphs, which require recognition in certain circumstances of an additional minimum liability in the statement of financial position, are effective for fiscal years beginning after December 15, 1988, with early application permitted. The guidance in this notice assists auditors of entities that adopt the provisions of paragraphs 36 through 38 in a financial reporting period subsequent to the period in which the other provisions of Statement no. 87 were adopted. The guidance applies when reporting on the financial statements for the period the provisions of paragraphs 36 through 38 are adopted.

The staff of the Auditing Standards Division believes that when an entity did not elect to early-apply the provisions of paragraphs 36 through 38 of Statement no. 87, subsequent adoption of those provisions is a change in accounting principle, as defined in paragraph 7 of APB Opinion no. 20, "Accounting Changes." Such a change in accounting principle requires the addition to the auditor's report of an explanatory paragraph describing the change, if the effect of the change on the comparability of the financial statements is material. For reporting guidance, the auditor should follow paragraphs 34 through 36 of SAS no. 58, AU section 508, "Reports on Audited Financial Statements."

The auditor also should consider whether the entity has adequately disclosed the adoption of those provisions of FASB Statement no. 87. If the auditor determines that the entity has not made adequate disclosure, the auditor should express a qualified or adverse opinion as described in AU Section 508.55.

#### **FASB Statement No. 104**

The guidance in this notice assists auditors when reporting on an entity's financial statements for the period of adoption of either paragraph 7(a) or 7(b) of FASB Statement no. 104. FASB Statement no. 104, paragraph 7(a), amends FASB Statement no. 95, *Statement of Cash Flows*, to permit certain financial institutions to report in a statement of cash flows certain net cash receipts and cash payments for certain loans and deposits. Paragraph 7(b) of Statement no. 104 amends Statement no. 95 to permit classification of cash flows resulting from certain hedging instruments in the same category as the cash flows from the items being hedged.

The staff of the Auditing Standards Division believes that the restatement or reclassification of the amounts presented in the statement of cash flows permitted by FASB Statement no. 104, when adequately disclosed in the financial statements, does not require the addition of an explanatory paragraph to the auditor's standard report.

FASB Statement no. 104 requires the restatement or reclassification of comparative amounts in financial statements for earlier periods. When an entity does not restate or reclassify the comparative financial statements for the adoption of Statement no. 104, it is considered a departure from a generally accepted accounting principle, as described in paragraph 49 of AU Section 508. If material, such a departure would require an auditor to modify the auditor's standard report as described in AU Section 508.49.



## **AICPA Disciplinary Actions**

At a meeting of the Joint Trial Board in Kansas City, Missouri, on October 5, 1989, William D. Burns, of Santa Maria, California, was found guilty of failing to cooperate with the Institute's Professional Ethics Division in a disciplinary investigation in violation of AICPA and California Society of CPA bylaws and was expelled from membership in the AICPA and the California Society of CPAs. Mr. Burns, who was not present at the hearing, was advised of the hearing panel's decision and of his right to request a review. He did not request a review of the decision which, therefore, became effective on November 4, 1989.

At a meeting of a hearing panel of the Joint Trial Board in Dearborn, Michigan, on October 6, 1989, Willie L. Mayo of Detroit was suspended from membership in the AICPA and the Michigan Association of CPAs for one year for violating their Rule of Conduct. The violations involved his undertaking an engagement which he or his firm could not reasonably expect to complete with professional competence, permitting his name to be associated with financial statements so as to imply that he was acting as an independent accountant without complying with generally accepted auditing standards and statements on auditing standards, and expressing an opinion that financial statements conformed with GAAP when they contained material departures therefrom. In addition to the suspension, he was required to complete 64 hours of CPE and to submit a list of engagements which his firm will be performing within the next year, from which two engagements will be selected by the AICPA and the Michigan Association of CPAs for their review.

Mr. Mayo, who was present at the hearing, did not request a review of the decision which, therefore, became effective on November 5, 1989.

## **Quality Review Meeting Results**

Among other actions taken by the quality review executive committee at its January meeting were:

- ☐ Approval of revisions to the programs for overseeing the activities of state CPA societies participating in the administration of the quality review program;
- ☐ Adoption of resolutions that provide procedures for terminating the enrollment of a firm from the quality review program if the firm fails to (a) submit certain information concerning arrangements for a quality review of the report or, (b) pay the administrative fees assessed by the state CPA society to recover its costs and expenses for the program.

## **Practicing CPA Reminder**

One copy of the *Practicing CPA* is automatically sent to each practice unit and to those members who specifically request it.

This monthly newsletter is primarily oriented to the local firms and focuses on the administrative aspects of practice management. If you would like to start receiving copies, please send your name and address to the membership administration department at the AICPA, specifying the publication.

## **CPA Exam Graders Sought**

The AICPA's examination division has openings for CPAs and JDs to assist in grading the May Uniform CPA Examination.

The grading period begins two to three weeks after the exam is given (May 2-3-4) and continues for about six weeks. Graders must provide a minimum of three seven-hour days each week, excluding Sundays. All grading is done in the AICPA's New York City office.

For additional information, write to the division, or call 212/575-3874.

**Reporting by  
Partnerships with  
Tax-Exempt  
Partners: A  
Reminder**

The Technical and Miscellaneous Revenue Act of 1988 added a new section 6031(d) to the Internal Revenue Code. It relates to the separate statement of items of unrelated business taxable income on partnership returns. This section requires partnerships in which tax-exempt organizations are partners generally to furnish enough information to enable the tax-exempt partners to compute their distributive share of partnership income or loss in accordance with the unrelated business income and debt-financed income rules.

**Concurring  
Reviewers Needed**

One of the membership requirements of the SEC Practice Section is that a member firm have a "concurring review of the audit report and the financial statements by a partner other than the partner-in-charge of the SEC engagement." Many firms, because of their size, are unable to meet this requirement without outside assistance. To assist these firms, a data bank of firms willing to perform such reviews is being established.

To be included in the data bank, a firm must participate in an approved AICPA practice-monitoring program, and the individual named must be a partner, shareholder or proprietor. If your firm wishes to be included in the concurring reviewer data bank, and meets the above qualifications, the SECPS Peer Review Committee encourages you to submit a Concurring Reviewer Interest Form to the quality review division of the AICPA. These forms have been mailed to the managing partners of all member firms of the SECPS and the PCPS that have SEC clients. If your firm has not received a copy, write to the AICPA quality review division.

**Life/Disability  
Insurance Refund  
Announced**

The 1990 refund under the AICPA's life/disability insurance programs—over \$40 million—is scheduled for payment late this month. A Schedule K-1, showing interest income and other tax information for calendar year 1989, will be included with the distribution. More than \$50 billion in life insurance coverage is now in force. All eligible subscribers will receive a refund equal to, or higher than, last year's.

Questions about the refund or other aspects of the insurance programs should be directed to Rollins Burdick Hunter Co., 605 Third Avenue, New York, New York 10158, or call 800/223-7473 (US); in New York, call collect 212/973-6200.

**NOTICE OF AICPA PUBLIC MEETINGS**

**Professional Ethics**

The professional ethics executive committee will meet in Phoenix, Arizona, at the Ritz Carlton Hotel on March 27 to consider the following proposed items for exposure: Revision of Interpretation 101—*The Meaning of Certain Independence Terminology and the Effect of Family Relationships on Independence*; Revision of ruling no. 14 under Rule 101—*Member on Board of Directors of United Fund*; Revision of ruling no. 17 under Rule 101—*Member as Auditor of Mutual Insurance Company*; Revision of ruling no. 42 under Rule 101—*Member as Life Insurance Policy Holder*; Revision of ruling no. 54 under Rule 101—*Member Providing Actuarial Services*; Deletion of ruling no. 45 under Rule 101—*Past Due Fees: Client in Bankruptcy*.

**Accounting Standards**

The accounting standards executive committee will meet in the AICPA New York offices on March 13–14, starting at 8:30 a.m. The agenda follows:

*Tuesday, March 13*

- ☐ Common Interest Realty Associations (discuss comments on proposed guide); Financial Reporting by Partnerships (preliminary discussion); Employee Stock Ownership Plans (initial discussion);

*Wednesday, March 14*

- ☐ Audit and Accounting Guide on Employee Benefit Plans (consider draft for exposure); Reporting on Advertising Activities (initial discussion of proposed SOP).

## Washington Briefs

**Civil RICO Reform Revisited**—After being reported out of the Senate Judiciary Committee by an 11-2 vote, the RICO Reform Act of 1989 (S.438) may be considered by the full Senate at any time. The bill would ameliorate many of the abusive uses to which civil RICO is currently put while preserving or strengthening the statute's effectiveness in combatting organized crime and other egregious criminal conduct. The AICPA supports this measure and has urged its Key Person Coordinators to contact their Senators. Other interested members should contact Tom Higginbotham in the AICPA Washington office at 202/737-6600.

**Unrealized Gains and Losses on Form 5500**—In the Federal Register of January 26, the Department of Labor states that it will not reject the Form 5500 Annual Report/Return of an employee benefit plan for the 1990 plan year solely because the plan administrator determines realized and unrealized gains and losses utilizing using a historical approach.

**Deductions on Charitable Contributions**—New guidelines have been issued by the IRS on the deductibility of contributions to charities that provide token benefits to contributors. They were issues, said the IRS, in response to concerns expressed by charities about the difficulties in determining the fair market value of nominal or token benefits and how to advise donors of the amount of their contributions. These guidelines (Rev. Proc. 90-12) were published in the February 20 issue of the Internal Revenue Bulletin (1990-8).

**TRA '86 Testimony**—In testimony before the House Ways and Means Committee, Arthur Hoffman, chairman of the AICPA tax division, told the committee that TRA '86 affected taxpayers differently, depending on their incomes, as far as fairness and simplicity are concerned. Mr. Hoffman also cited the administrative burdens and higher costs suffered by small businesses as a result of the tax-year conformity requirement of TRA '86.

**Interest Rates for Over/Underpayments to Remain Unchanged**—In Revenue Ruling 90-19, the IRS has announced that interest rates for the calendar quarter beginning April 1 will remain at 10 percent for overpayments and 11 percent for underpayments of tax.

**Guidance on Accuracy-Related Penalties**—The IRS has issued Notice 90-20, which provides guidance under the accuracy-related penalty provisions applicable to tax underpayments attributable to negligence, along with Rev. Proc. 90-16 on adequate disclosure to prevent income tax understatement. These documents will appear in Internal Revenue Bulletin 1990-10, dated March 5.

---

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

March 20, 1990  
Vol. 70 No. 4

# The CPA Letter

**A Membership News Report Published by the AICPA**

## **SOP Issued on Reports on HUD Audits**

*Auditor's Reports Under U.S. Department of Housing and Urban Development's "Audit Guide for Mortgagors Having HUD Insured or Secretary Held Multifamily Mortgages"* is the title of Statement of Position 90-4 issued by the Auditing Standards Division in consultation with HUD's Office of Inspector General. It updates the HUD audit guide to conform to the reporting requirements of SAS no. 58, *Reports on Audited Financial Statements*, SAS no. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit*, and SAS no. 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*.

Copies are available from the AICPA order department (product no. 014841). Call 800/334-6961 (US); 800/248-0445 (NY). The price is \$4.75; \$3.80 to members (s/h is extra).

## **Proposed SOP Issued on Internal Controls**

An exposure draft of a proposed statement of position, *The Auditor's Consideration of Internal Controls Over Federal Financial Assistance Programs Under the Single Audit Act* (product no. G00398), has been issued. Comments are due by May 31.

The statement would amend chapter 21 of the AICPA audit and accounting guide, *Audits of State and Local Governmental Units*, and will supersede example 26 in SOP 89-6, *Auditor's Reports in Audits of State and Local Governmental Units*. The new SOP will update the guide and SOP 89-6 to reflect recent standards that affect the auditor's consideration of, and reporting on, internal controls over federal financial assistance under the Single Audit Act. They are SAS no. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit*, and SAS no. 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*.

## **CPAs Exempt from OTS Regulation**

The Office of Thrift Supervision (OTS) requires, among other things, that before an insured institution discloses certain defined information about its customers to third parties, the institution must obtain customer approvals and request that the third party execute a "confidentiality agreement" with the institution (regulation section 545.132, "Disclosure of Customer Records").

Because the AICPA's Ethics Rule 301 addresses confidential client information, the OTS has concluded that CPA firms are not required to execute a confidentiality agreement with the insured institution prior to gaining access to confidential institution customer information. The Chief Counsel's Office at the OTS has issued an interpretive ruling to that effect. For further information, call John Frech at the OTS, 202/331-4561.

## **GAAS to Apply to REA Audits**

The REA has informed the AICPA that, for audits of financial statements for December 31, 1989, and thereafter, auditors are required to adhere to applicable generally accepted auditing standards and to comply with 7 CFR Part 1789, *REA Policy on Audits of Electric and Telephone Borrowers*, dated January 21, 1986. However, the changes proposed in the REA's memoranda dated November 15, 1989, and December 19, 1989, which would have required auditors to follow Government Accounting Standards issued by the Comptroller General of the U.S., are not required. Nevertheless, reports submitted using this proposed format will be acceptable. For further information, contact the REA Technical Staff at 202/382-8227.

### **Auditing Standards Board Meeting Highlights**

The auditing standards board has approved proposed amendments to the following SASs for inclusion in the 1990 *Omnibus Statement on Auditing Standards*:

- ☐ SAS No. 58, *Reports on Audited Financial Statements* (Paragraph 83)—Modify the example explanatory language for the auditor's report when the financial statements reported on by the predecessor auditor are restated and the predecessor auditor's report is not presented;
- ☐ SAS No. 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*:
  - Paragraphs 21 and 22—Include a disclaimer of opinion on compliance in the report on compliance with laws and regulations, which is issued in accordance with the *Government Auditing Standards* (Yellow Book). All other SAS no. 63 non-opinion compliance reports contain that disclaimer;
  - Paragraphs 73 and 74—Restrict the distribution of the report on compliance with specific requirements issued to conform with the Single Audit Act of 1984. All other SAS no. 63 compliance reports contain the report restriction.

### **Quality Review Meeting Highlights**

At its recent meeting, the quality review executive committee:

- ☐ Approved the new two-day AICPA reviewer training course "How to Conduct a Review Under the AICPA Practice Monitoring Programs" as meeting the requirements of the quality review program;
- ☐ Approved the supplemental checklist developed by the Joint SECPS/PCPS/QREC Task Force for the review of bank audit engagements.

## **NOTICE OF AICPA PUBLIC MEETINGS**

### **Auditing Standards**

The auditing standards board will hold an open meeting on April 3–5 in Tempe, Arizona, at the Westcourt in the Buttes, starting at 9:00 a.m. each day. The agenda follows:

#### *Tuesday, April 3*

- ☐ Reporting on Internal Controls (discussion of a draft attestation standard on reporting on an examination of management's report about internal controls);
- ☐ Service-Center-Produced Records (discussion of a proposed SAS to supersede SAS no. 44, *Special Purpose Reports on Internal Accounting Controls at Service Organizations*);
- ☐ Omnibus SAS 1990 (discussion of proposed amendments to SASs);

#### *Wednesday, April 4*

- ☐ Amendment to SAS no. 61 (discussion of proposed amendment to SAS no. 61, *Communication with Audit Committees*, that expands communication responsibilities on certain matters affecting interim financial information);
- ☐ Use of Confirmations (discussion of a proposed SAS on the use of all types of confirmations);
- ☐ GAAP Hierarchy (discussion of how proposed changes to the hierarchy of GAAP affect SASs);

#### *Thursday, April 5*

- ☐ Negative Assurance (discussion of whether accountants should provide negative assurance based on agreed-upon procedures).

### **Accounting and Review Services**

The accounting and review services committee will hold an open meeting at the AICPA's Washington office on April 19–20, starting at 9:00 a.m. It will review proposed interpretations of statements on standards for accounting and review services. The proposed interpretations will address these questions: What constitutes a financial statement? When is the accountant submitting financial statements? May practitioners issue draft financial statements?

# REPORT OF THE NOMINATIONS COMMITTEE

## To: Members of the American Institute of Certified Public Accountants

Pursuant to Article VI, Section 6.1.6 and 3.3 of the bylaws, the following report of the Nominations Committee is submitted.

Donald J. Schneeman, Secretary  
March 9, 1990

The Nominations Committee hereby proposes the following nominees:

**Chairman and Vice Chairman of the Board:** The Committee affirmed the nominations of Thomas W. Rimerman, California, as Chairman of the Board of the Institute for 1990-91 and nominated Gerald A. Polansky, District of Columbia, as Vice Chairman of the Board.

**Vice Presidents:** The Committee nominated the following Vice Presidents:

Thomas M. Feeley, Massachusetts      Jake L. Netterville, Louisiana      Ronald S. Cohen, Indiana

**Treasurer:** The Committee nominated Richard E. Piluso, New York, as Treasurer.

Upon election, the candidates will serve in the positions indicated from the Annual Meeting in 1990 until the Annual Meeting in 1991 or until their successors shall be elected.

**Board of Directors:** The Committee nominated the following for election as members of the Board of Directors for three-year terms:

Brenda T. Acken, West Virginia      Herbert J. Lerner,  
Bruce J. Harper, Texas      District of Columbia

**Council Members-at-Large:** The Committee nominated the following for Council Members-at-Large for three-year terms:

Irvin F. Diamond, New Mexico      J. Allen Poole, Georgia      Howard L. Stone, Illinois  
Robert C. Ellyson, Florida      Eric L. Schindler, Washington      Michael A. Walker, New York  
John H. Kennedy, Pennsylvania

The Nominations Committee nominated Robert F. Warwick, North Carolina, for a one-year term as Member-at-Large to fill a vacancy created by Ronald S. Cohen, Indiana, being nominated for Vice President.

**Elected Members of Council:** After consideration of the recommendations submitted by the State Societies of CPAs, in accordance with the provisions of Article VI, Section 6.1.5 of the bylaws, the committee nominated the following 42 members from 28 jurisdictions as directly Elected Members of Council. Unless otherwise noted, upon election, nominees will serve a three-year term commencing in the fall of 1990.

Alabama—Don L. Machen	Illinois—Harvey L. Coustan	New Jersey—John C. Kelly
Arizona—Michael T. Daggett	John R. Meinert	Eugene V. Malinowski
Terry L. Hothem	John R. Rogers	New York—Stuart Kessler
California—Louis J. Barbich	Ernest R. Wish	Bert N. Mitchell
Al A. Finci	Indiana—Jeffrey C. Kimmerling	North Carolina—Ruth Mathews Rogers
Thomas J. Phillips	Iowa—Larry F. Mosebach	Ohio—Thomas J. Mulligan
Michael J. Schwarz	Kansas—Louis R. Regier	Pennsylvania—Dean M. Hottle
Dennis A. Young	Kentucky—Michael B. Mountjoy	John L. Kreischer, III
Colorado—Michael D. Weatherwax	Louisiana—Patrick D. McCarthy	Rhode Island—Jack Fradin
Connecticut—George G. Veily	Maryland—E. Dawson Grove	Tennessee—Raymond F. Kamler
Florida—John R. Rowe, Jr.	Massachusetts—Paul Norton	Texas—Arthur Greenspan
Wilber G. Van Scoik	Michigan—Raymond E. Howard	Edward L. Summers
Georgia—Richard Q. Conrad	Minnesota—Patrick W. Jacobs	Claude R. Wilson, Jr.
	Missouri—C. Paul Story	Virginia—William C. Morrison
		Washington—Dwan W. Bowen

**Quality Review Executive Committee:** The Committee proposed the following members for service on the Quality Review Executive Committee for election at the fall Council meeting:

Michael A. Walker, New York, Chairman	Michael Daggett, Arizona	Zeno H. Montgomery, South Carolina
Gerald H. Banwart, Illinois	Bernard W. Gratzner, Kentucky	Scott R. Nelson, Iowa
John R. Burzenski, Connecticut	Robert R. Harris, Florida	Michael J. Schwarz, California
Michael A. Crawford, Oklahoma	Bruce N. Huff, Texas	C. David Stauffer, Colorado
	Barry C. Melancon, Louisiana	Dan L. Weaver, Missouri

The Committee will nominate the Officers, Directors, Council Members-at-Large, Elected Members of Council and Quality Review Executive Committee at the Council Meeting, Saturday, October 20, 1990, in Baltimore, Maryland. No nominations from the floor will be recognized. However, independent nominations may be made by any twenty members of Council if filed with the Secretary by June 20, 1990, which is four months prior to the Annual Meeting of the Institute to be held in Baltimore, Maryland, beginning October 21, 1990.

Pursuant to the bylaws, balloting for directly elected Council members in any state where vacancies shall arise will occur only if a contest for one or more seats develops as a result of submission of independent nominations to the Secretary by any twenty Institute members in the state at least four months prior to October 20, 1990. In the absence of any contest, all Council nominations will be declared elected by the Secretary and they will assume office at the Council Meeting on October 20, 1990.

Respectfully submitted,

*Nominations Committee*

Robert L. May, New York, Chairman  
William C. Carpenter, Massachusetts  
David L. Chervenak, Kentucky  
Neil S. Churchill, Massachusetts

Louis W. Dooner, Florida  
William F. Easley, California  
Lawrence D. Handler, Connecticut  
Ronald S. Katch, Illinois

Daniel J. Kelly, Michigan  
William L. Matthews, Michigan  
Marilyn A. Pendergast, New York

**"Honor Roll"  
States Announced  
for November CPA  
Exam**

The AICPA examinations division has announced that CPA candidates in 14 states have scored higher than the national average on the November 1989 Uniform CPA Examination. These "honor roll" states are: Arizona, California, Colorado, Florida, Illinois, and Louisiana. Also included are Minnesota, Montana, Nebraska, New York, Oregon, Utah, Washington and Wisconsin.

**National Industry  
Conference  
Scheduled**

The AICPA's National Industry Conference has been set for April 26-27 at the Stouffer Orlando Resort. Designed with controllers, chief financial officers and other industry members in mind, the conference covers technical subjects as well as management issues.

Topics to be covered include financing a growing company in today's market, LBOs and other considerations for the CFO, and upgrading money market investment decisions. Former Secretary of Labor Ann McLaughlin will speak on the impact of explosive demographic changes on American business; Harvard University's Dr. Robert Reich will examine ways to improve U.S. competitiveness in the global marketplace. AICPA President Philip B. Chenok will also address the conference.

Special events on the evening of April 26 include an informal member forum discussion with members of the industry committee and a reception at Sea World.

The cost is \$450 and recommended CPE credit is 16 hours. For further information, call the AICPA's meetings department at 212/571-6451.

**SAVINGS AND LOAN INDUSTRY DEVELOPMENTS:  
POSSIBLE UNCERTAINTIES ARISING FROM 1988 THRIFT ACQUISITIONS**

Audits of savings and loan institutions that entered into assistance agreements with the Federal Savings and Loan Insurance Corporation (FSLIC) may be affected by provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) that call for possible restructuring of those agreements.

To encourage investors to acquire troubled savings and loan institutions in 1987 and 1988, the FSLIC often provided various forms of financial assistance. Such assistance included the issuance of notes to the purchaser, yield maintenance subsidies on loans or other assets, reimbursement of goodwill amortization and of losses on the disposition of certain assets, and indemnification against undisclosed liabilities and litigation resulting from the acquisitions.

Section 501 of FIRREA established the Resolution Trust Corporation (RTC). Section 501 A-21A(b)11(B) states that one of the RTC's responsibilities is to "review and analyze all insolvent institution cases resolved by the FSLIC between January 1, 1988 and the date of enactment of FIRREA and actively review all means by which it can reduce costs under existing FSLIC agreements relating to such cases, including restructuring such agreements." It is to report to the RTC's oversight board and Congress the results of that review. The commentary from the Joint Explanatory Statement of the congressional conference committee notes that the RTC shall exercise all the rights that FSLIC had to modify, renegotiate, or restructure assistance agreements where savings can be realized. FIRREA also charged the U.S. General Accounting Office (GAO) with reviewing the 1988 FSLIC-assisted transactions and providing cost estimates for these transactions. The GAO will submit its report on this review to Congress.

These provisions of FIRREA may be relevant to the following areas in audits of the financial statements of savings and loan institutions:

- ☐ Evaluating whether the accounting for and disclosure of loss contingencies conform with FASB Statement no. 5, *Accounting for Contingencies*;
- ☐ Applying the provisions of SAS no. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*;
- ☐ Applying the provisions of SAS no. 58, *Reports on Audited Financial Statements*, dealing with reporting on uncertainties.

Also, regulatory agencies have disputed the amounts due under assistance agreements; such disputes will likely continue to arise. Disputes have centered around documentation in support of claims and interpretation of assistance agreements.

**Recent AICPA Publications**

The *Independent Auditor's Consideration of the Work of Internal Auditors* (Product no. 021051) is an auditing procedure study that discusses ways in which independent auditors may efficiently and effectively consider the work of internal auditors. It is priced at \$11.50; \$9.20 to members.

SOP 89-7, *Report on the Internal Control Structure in Audits of Investment Companies* (014838) includes an illustration of the independent auditor's report on a management investment company's internal control structure. It amends *Audits of Investment Companies* in response to changes required by SAS no. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit*. The price is \$2.75; \$2.30 to members.

The above may be ordered from the AICPA order department by calling 800/334-6961 (US); 800/248-0445 (NY).

Proposed SOP on *Issues Affecting Prospective Financial Statements*. This exposure draft (G00309) is available by writing the AICPA order department.

**Freeman Appointed to GASB**

Robert J. Freeman, distinguished professor of accounting at Texas Tech University, has been appointed to the Governmental Accounting Standards Board for a three-year term beginning July 1, 1990. Dr. Freeman was a charter member of the National Council on Governmental Accounting, predecessor to the GASB, and has served on the government accounting and auditing committee of the AICPA.

**Members' Views Sought for 1990 Annual Meeting**

The 1990 Annual Meeting will be held on October 22-24 in Baltimore at the Stouffer Harborplace and Hyatt Regency Hotels.

In a departure from past years, this year's meeting will be issues-oriented. "For the first time," AICPA Board Chairman Chuck Kaiser said, "attendees will have a unique opportunity, in interactive break-out sessions, to discuss and learn more about those issues they believe will be most critical to the profession in the future." The specific issues to be discussed will be selected from those submitted by the membership. They will likely focus on two major areas: the Institute's governance and structure, and members' practices or organizations.

By offering the membership an opportunity to tailor the content of the programs, this year's Annual Meeting will be far more relevant to the needs of individuals members and to the profession as a whole. "It's an exciting opportunity and a meeting not to be missed," said Kaiser.

-----  
Please send me registration, when available, for the 1990 Annual Meeting in Baltimore \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Suggested issues: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Mail to: Meetings Department, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775.



## Washington Briefs

**AICPA Members in Government**—William S. Stark has been named Assistant Director for Capital Markets, a new position within the FDIC's Division of Supervision. He will help set policy and provide guidance on insured institutions' involvement with the capital markets. He is the former senior vice president and CFO of Benjamin Franklin Federal Savings Association of Houston, Texas, and was previously with (now) KPMG Peat Marwick.

John J. Adair is slated to become Inspector General of the Resolution Trust Corporation, a newly created position. He previously served as an Associate Director of the Audit Oversight and Policy Group at the General Accounting Office.

**IRS Ruling May Benefit CPAs**—Under Revenue Ruling 90-23, the daily expenses of transportation from home to a temporary place of business, such as a client's office, are deductible for a taxpayer who has one or more regular places of business. Also, reimbursement for such costs under an accountable plan are not taxable. The ruling was published in *Internal Revenue Bulletin 1990-11*, March 12, 1990.

**Taxation of Employee Annuities**—Revenue Ruling 90-24 on taxation of employee annuities has been issued by the IRS. It addresses the question of whether a transfer of all or part of the holder's interest in a section 403(b)(1) annuity contract or a section 403(b)(7) custodial account to another section 403(b)(1) or 403(b)(7) contract or account constitutes an actual distribution to the holder within the meaning of 403(b)(1). The IRS states that such a transfer not subject to early distribution restrictions is not an actual distribution and, therefore, is not a taxable transfer. The ruling appeared in *Internal Revenue Bulletin 1990-11*, March 12.

**OCC Urges More Cooperation Between Auditors and Examination Teams**—The Office of the Comptroller of the Currency, in Advisory Letter 90-3, "strongly recommends that bank directors encourage management to increase cooperation between outside auditors and the OCC examination team." The Treadway Commission had recommended that examiners and auditors have mutual access to information they develop on examined financial institutions. Copies of the letter are available by calling the OCC at 202/287-4279.

**IRS Guidance on Passive Casualties**—The IRS has issued two forms of guidance in response to the AICPA's request for relief from the passive activity loss rules in casualty situations. PS-065-89 and TD 8290 (see February 28 *Federal Register*) exclude casualty losses and reimbursement from the rules and describe the application of other related code sections in disaster situations, with illustrations.

---

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

April 2, 1990  
Vol. 70 No. 5

# The CPA Letter

---

**A Membership News Report Published by the AICPA**

---

**FASB Further  
Considers  
Postemployment  
Benefits**

The Financial Accounting Standards Board has tentatively concluded that the discounted amount of a postretirement benefit liability should be measured based on current interest rates on high-quality fixed-income investments currently available and may be expected to be available during the period the benefits are expected to be paid. The Board noted that the objective of the discounting process and the meaning of "expected to be available" should be clarified in the final document.

Also, the Board is continuing its discussions of the conditions an employer must meet in order to anticipate future plan amendments, such as reductions of benefits, for measurement purposes. No decisions have been reached.

**GASB Issues  
Research Report  
on Retiree Health  
Benefits**

A research report on postemployment benefits other than pensions has been published by the Governmental Accounting Standards Board. The purpose of the research was to determine the nature and extent of those benefits provided by governmental employers, the legal or contractual authority for the benefits, and the accounting and funding practices currently being used.

The GASB had issued an exposure draft proposing that state and local governmental employers make certain disclosures about other postemployment benefits, based on the preliminary findings of the research. It expects to issue a final statement by early May.

Copies of the report, *Other Postemployment Benefits in State and Local Governmental Units*, are available from the GASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116. The price is \$10 each, prepaid.

**Scholarships  
Awarded to  
Minority Students**

Over \$53,000 in scholarships has been awarded to minority students studying accounting for the second half of the 1989-90 academic year.

Since the program's inception in 1970, more than \$4 million in scholarship aid has been granted to over 4,500 students by the AICPA's minority recruitment and equal opportunity committee. The awards for this academic year, totaling \$433,250 to almost 600 students, represent the highest annual amount ever given to minority students by the AICPA.

The second-half awards went to 127 undergraduate and graduate students at 79 schools throughout the United States, with the largest number of awards going to students at historically Black colleges and universities. The total includes nine Arthur Andersen/AICPA awards amounting to \$5,000.

Those interested in applying for next fall's scholarships should contact Sharon Donahue at the AICPA. The deadline for applications is July 1.

**Van Rensselaer  
Award Nominees  
Sought**

The National Association of State Boards of Accountancy is seeking nominees for the 1990 Van Rensselaer Public Service Award. Names should be submitted by May 16.

Candidates should have earned recognition as leaders in the profession through their contributions in the development of a new program or improvement of a current program for boards of accountancy, or who have influenced passage of rules or statutes to strengthen accountancy regulations and laws.

For information on nominations, criteria and forms, contact the Public Service Awards Committee, NASBA, 545 Fifth Avenue, New York, New York 10017-3698.

## **CPE Conferences Set for 1990**

*SAS no. 63 Compliance Auditing Conference:* April 23, Condado Plaza Hotel, San Juan, Puerto Rico. A strategic briefing designed for audit partners and others. Registration fee is \$170 and recommended CPE credit is six hours.

*Tax Strategies for the High-Income Individual:* April 30–May 1, Desert Inn, Las Vegas; and May 31–June 1, Buena Vista Palace at Walt Disney World Village, Orlando. This two-day conference is designed to help you develop creative strategies for your high-income clients. Registration fee is \$495 and recommended CPE credit is 16 hours.

*Building & Managing a Successful Tax Practice:* May 10–11, Westcourt in the Buttes, Tempe, Arizona. An intensive, hands-on workshop, designed to pinpoint your interests and needs and provide you with the tools and techniques necessary to build and manage your tax practice. Registration fee is \$695 and recommended CPE credit is 16 hours.

*1990 National Banking School:* May 13–18, Unit I—Intermediate; June 3–8, Unit II—Advanced; both at the Cavalier Inn, Charlottesville. Cosponsored by The McIntire School of Commerce, University of Virginia, this conference will provide a broad overview of the internal operating environment of a financial institution, including the management decision-making process, operating committees and other elements of the operations. Registration fee is \$1,195 per unit and recommended CPE credit is 40 hours for each unit.

*1990 Tax Education Program:* University of Illinois, Urbana-Champaign. June 18–22 (Basic); June 25–29 (Intermediate); July 9–13 and July 16–20 (Advanced); July 23–27 (Update). Increase your tax competence, learn to use the Internal Revenue Code, and gain planning insights. Registration fees range from \$895 to \$995 per week (two weeks may be taken), less early enrollment (by 5/18) and past participant discounts. Recommended CPE credit is 40 hours per week.

For information on the above conferences, call 800/242-7269 (US); 212/575-5696 (NY).

*9th Annual Microcomputer Conference & Exhibition:* June 3–6, Marriott's Orlando World Center, Orlando. An opportunity to gain computer know-how through participation in classes and demonstrations in the microcomputer lab, learn current tactics and technology, and get a head start on the microcomputer needs of the coming decade. Registration fee is \$550 per person (guest registration is \$60). Recommended CPE credit is 24 hours. For information, call the AICPA meetings division at 212/575-6451.

## **Copies of CPE Membership Policies Available**

A brochure describing CPE policies for AICPA membership was included with the February issue of the *Journal of Accountancy*. Members can get up to five free copies (additional copies are \$2.50) by writing to the AICPA order department. Request *Policies for the CPE Membership Requirement* (G00560).

## **Spring Tax Division Meeting Set**

The AICPA Tax Division Spring Meeting will be held on May 14–16 at the Ramada Renaissance Hotel-Techworld in Washington, D.C. Over 500 members of the Tax Division are expected to attend.

Featured speakers will include Senator Bob Packwood (R-OR), Assistant Treasury Secretary for Tax Policy Kenneth W. Gideon and Joint Committee on Taxation Chief of Staff Ronald A. Pearlman. Subcommittee meetings and workshops on May 14 and 16 will deal with current technical and practice issues. Eight hours of CPE credit will be recommended for attending all sessions on May 15.

Registration materials will be sent to all Tax Division members. Others should call Carlotta Stewart of the Washington office at 202/737-6600 for materials and information on joining the Tax Division.

---

The CPA Letter (ISSN 0094-792x), April 2, 1990. Published semimonthly, except July and August, when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036-8775. Second-class postage paid at New York, N.Y. and at additional mailing offices. Copyright © 1990 American Institute of Certified Public Accountants, Inc. Postmaster: Send address changes to Circulation Department, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

William J. Corbett  
Vice-President—Communications

Roderic A. Parnell  
Executive Editor

## FOR INDUSTRY MEMBERS ONLY

### A Special Report from AICPA's Industry Committee

The 1980's have been a decade of increased AICPA attention to the needs of industry members. Your industry committee and other AICPA committees are planning even more services for the 1990's.

#### The Industry Committee's Role

The Industry Committee represents your interests at the Institute. In addition to developing its own programs for industry members, the committee maintains liaison with other AICPA committees and divisions to provide an industry perspective on all AICPA professional issues and programs. Just a few programs we currently monitor and comment on are: proposed changes to the model accountancy bill and the uniform CPA exam, the AICPA Certificate of Educational Achievement program in Financial Management, IFAC's Financial and Management Accounting Committee exposure drafts, proposals of the committee to implement the Treadway Commission recommendations, proposed revisions to AICPA's Code of Professional Ethics, and AICPA Washington office activities.

For the past two years, the Committee has been heavily involved in reviewing and commenting on the proposal to require CPE for AICPA membership. The February issue of the *Journal of Accountancy* included a detailed description of the requirement for all AICPA members. If you are unsure of when you need to complete the required CPE or what kind of courses are acceptable—or have any other questions about the requirement—please submit your questions in writing to CPE Division, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775.

The annual National Industry Conference is the “jewel in the crown” of the committee's programs. Each year over 500 industry members gather to hear updates on technical and managerial topics covering a wide range of financial management functions and, just as importantly, to exchange information on professional and job-related issues with fellow AICPA members. The 1990 conference is in Orlando, Fla. on April 26-27. It includes sessions on: Accounting for Other Post-Employment Benefits, Financing Your Growing Company in Today's Market, Small Business Tax Update, Win-Win Negotiations, Managing Change, Going Public—What the CFO Needs to Know, FASB Update. The program provides 16 CPE credits. Join us in Orlando for updates and fellowship!

Here's a partial list of other services for industry members with telephone numbers to call for further information:

#### Technical & Managerial Support

**Studies and Guidelines** on subjects of interest to members in industry are issued by the Accounting Standards, Auditing Standards, Federal Taxation, and Management Advisory Services divisions and by the Accounting and Review Services Committee. To obtain a catalog of all AICPA publications, call: 800-334-6961 (US); 800-248-0445 (NY).

**The Technical Information Service** responds to member inquiries about accounting and reporting problems. The CPAs on the staff will express their personal opinions and provide citations of authoritative reference sources. Call: 800-223-4158 (US); 800-522-5430 (NY).

**Continuing Professional Education** in-house materials, including video and individual-study programs, make CPE convenient for members in industry. For information about courses and CPE standards, call the CPE Hotline: 800 + AICPANY; or, in New York: 212-575-5696.

**The National Conference on Banking and The National Conference on Current SEC Developments** (among other AICPA Conferences such as the National Industry Conference), and the Institute's annual meeting, are designed to appeal to CPAs who work in industry as well as public practice. Call: 212-575-6451.

**The AICPA Library** researches members' requests for information, provides bibliographies, and loans material by mail. The library's microfiche service contains the annual report of 6,500 companies. The library also maintains the *Accountant's Index*, a reference guide to current accounting literature. Write for the *Library Guide*, or call: 800-223-4155 (US); 800-522-5434 (NY).

**The National Automated Accounting Research System (NAARS)** permits industry members to research financial statements, footnotes and auditors' reports from thousands of selected proxy materials. The AICPA's *Total On-Line Tax and Accounting Library (TOTAL)* is an AICPA service that allows low-cost access to NAARS, LEXIS tax libraries and other on-line libraries such as NEXIS at Mead Data Central. Call: 212-575-7075.

**AICPA Software Support** assists members in using AICPA Software and maintains a data bank of software programs of interest to CPAs to help members locate particular software. 212-575-5412.

**Voluntary Dues-paying Membership Divisions** have been established for AICPA members who have special interests in taxation, personal financial planning (PFP), and management advisory services (MAS). Benefits of membership include publications, newsletters, surveys, and meetings. Tax Division: 202-737-6600; PFP: 212-575-3644; MAS: 212-575-6290.

**The Tax Adviser** is a monthly journal providing articles, interpretations, tax planning pointers, and recent developments. 212-575-6317.

**The "Focus on Industry"** column in the *Journal of Accountancy* includes advice from colleagues on aspects of management accounting, internal auditing and financial management. If you would like to develop an article, or already have an outline or a draft that you would like us to consider, the *Journal's* staff will provide editorial guidance and assistance. Contact the technical editor of the *Journal of Accountancy*, or call: 212-575-5519.

**The Accountant's Business Manual** contains up-to-date information on a wide range of business services: taxes, insurance, investments, bankruptcy, etc. The manual is published as a single, loose-leaf volume; semiannual supplements are sent automatically. Call the order department at 800-334-6961 (US); 800-248-0445 (NY).

**The Industry Member Forum Program** encourages members in industry to meet on an informal basis to discuss technical and professional topics of common interest. Many state CPA societies sponsor industry member forums. The *Industry Member Forum Manual* explains how to organize a forum, and offers ideas for topics to be discussed. Call: 212-575-6439.

### **Professional Support**

**The Public Relations Division** informs the public, including employers of industry CPAs, about the activities and contributions of CPAs through magazine articles, newspaper releases, and radio and TV announcements. Call: 212-575-5574.

**The Professional Ethics Division** responds to members' questions about the application of the Code of Professional Ethics to specific situations. The division also investigates complaints of alleged violations of the Code of Professional Ethics. Call: 212-575-6217 or 212-575-6299.

**The Relations with Educators Division** develops recruiting literature and film to keep educators and students informed about opportunities in the accounting profession and, through its Accounting Testing program, offers companies a series of tests for personnel evaluation. Call: 212-575-6358.

**The State Legislation Department** works closely with the state societies on accountancy legislation that protects the interests of all CPAs and the general public. Call: 202-737-6600.

**The Federal Legislation Division** monitors federal legislation and regulations and submits comments to Congress and Federal agencies on matters affecting industry members. Call: 202-737-6600.

### **Member Services**

**Life Insurance Plans** include the CPA Plan (for individuals), which provides up to \$500,000 of life insurance plus \$500,000 of accidental death benefits.

**The Long-Term Disability Income Plan** for individual CPAs includes liberal definitions, a rehabilitation program, and monthly benefits of up to \$5,000.

For more information on insurance programs, call the Insurance Plan Administrator, Rollins Burdick Hunter Company, at the following numbers: the CPA Group: 800-223-7473; the Group Plan: 800-231-3019; the Long-Term Disability Income Plan: 800-221-4722. In New York call collect: 212-973-6431.

**The Benevolent Fund** helps members, former members, and their families through periods of financial difficulty. Call: 212-575-3659.

**OMB Guidelines  
Issued on "Byrd  
Amendment"**

The "Byrd Amendment" to the 1989 Interior Department Appropriations Act (PL 101-121, Section 319) prohibits recipients of federally appropriated funds from using these funds to lobby the executive or legislative branches in connection with specific contracts, loans, or cooperative agreements. The certifications and disclosures apply to contracts or subcontracts over \$100,000, and loans and loan guarantees over \$150,000.

Under the terms of the Act, the Office of Management and Budget has issued government-wide guidelines on which individual agencies are to base their specific regulations. The guidelines appeared in the December 20, 1989, *Federal Register*.

**Summa Appointed  
to IRS Panel**

Don J. Summa, an AICPA member and former officer, has been appointed to the IRS Commissioner's Review Panel on Integrity. The panel, comprised of individuals with backgrounds in government or taxation, will review the IRS' proposed action plan being developed to address integrity concerns raised at last summer's congressional hearings.

Mr. Summa is currently a professor in the Graduate School of Management at Rutgers University. Previously, he held various positions with Arthur Young & Company (now Ernst & Young) including the firm's senior tax partner. In addition to membership on various AICPA tax committees, he served as Treasurer, Vice President and on the Board of Directors of the Institute.

He was the 1987 recipient of the AICPA Tax Division's Arthur J. Dixon Distinguished Service Award.

**Brochures for Small  
Business Available**

Four new brochures regarding services that CPAs can render to small businesses, designed for distribution to clients and others, have been issued. Each of them is priced at \$15 per 100 copies and may be obtained from the AICPA order department at 800/334-6961 (US); 800/248-0445 (NY). They are:

- ☐ *Securing a Loan for Your Company* (product no. 890541);
- ☐ *Planning Your Company's Growth* (890540);
- ☐ *Managing Your Business Dollars* (890543);
- ☐ *Connecting Your Business with the Right Computer System* (890542).

**Federal Election  
Guide Is Ready**

The AICPA's guide for federal candidates has been updated and is available free to congressional candidates and AICPA members from the Institute's Washington office (call 202/737-6600).

*Compliance with Federal Election Campaign Requirements: A Guide for Candidates (Fifth Edition, Revised)* is designed to assist candidates in understanding and complying with current federal election campaign laws. Information on accounting, taxes and internal controls is included.

**NOTICE OF AICPA PUBLIC MEETING**

**Quality Review**—An open meeting of the quality review executive committee will be held in the AICPA offices in Washington, D.C. on April 30, starting at 8:30am. The agenda follows:

A.M.—Reports on status of AICPA CPE Programs; CPA/SEA Advisory Group meeting; Administrative Fees; and discussion of preliminary draft on updates to the *State Society Administrative Manual*.

P.M.—Preliminary discussion of *Guidelines for Report Acceptance and Annual Meeting of Quality Review Committee Chairmen*; Consideration of Plans of Administration of State CPA Societies and Associations of CPA Firms for 1990 On-Site Quality Reviews.

## Washington Briefs

**SEC Seeks CPAs**—The SEC is accepting applications from CPAs with three years experience in public accounting or a corporation dealing with SEC disclosure requirements for Washington, D.C. positions. Annual salaries are \$35,825–\$55,381. Send resumes to: SEC, 450 5th Street, N.W., Stop C-1, Washington, D.C. 20549.

**UN Needs Accountants**—The Office of UN System Recruitment, U.S. Department of State, is seeking to identify candidates for career positions within the UN Secretariat and certain international organizations. Ideally, candidates should have a graduate degree in accounting, administration or financial planning; six to ten years experience; and a working knowledge of a UN language (French or Spanish preferred). For information, call Linda Lum at 202/647-3397.

**RTC Schedules Seminars**—How to purchase savings and loan associations or their assets, and how to contract services with the Resolution Trust Corporation are the subjects of ten one-day seminars to be conducted by the RTC between April 17 and July 11. The locations are Anaheim, Dallas, Denver, Kansas City, Miami, Washington, D.C., Phoenix and Philadelphia. The fee for each seminar is \$220. For information, call the RTC at 800/431-0600.

**OMB Circular Issued**—Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Organizations*, has been released by the Office of Management and Budget. Published in the March 16 issue of the *Federal Register*, it requires that audits shall usually be performed annually, but *at least* every two years, for such organizations receiving \$100,000 in federal awards, and sets certain reporting requirements.

**IRS Issues 6039D Reporting Requirements**—In IRS Notice 90-24 employers are advised that, until further notice, they will not have to file information returns for Section 79 group term life insurance or other specified plans. This notice appeared in *Internal Revenue Bulletin 1990-13*, dated March 26.

**Lochner Confirmed for SEC**—Phillip R. Lochner, Jr. has been confirmed as a commissioner of the SEC. He will serve the remaining term of former SEC Chairman David S. Ruder, which expires June 5, 1991. Dr. Lochner was general counsel and secretary at Time Warner, Inc. at the time of his nomination.

**New Thrift Guideline Issued**—Thrift Bulletin 36a has been issued by the Office of Thrift Supervision. It states that the failure by a savings and loan association to file an acceptable capital plan and to comply with the guidelines in the bulletin shall be treated "as an unsafe and unsound practice." Copies of TB 36a are available by calling the OTS at 202/416-2751.

---

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

April 19, 1990  
Vol. 70 No. 6

# The CPA Letter

**A Membership News Report Published by the AICPA**

## Highlights of Board of Directors Meeting

At its April meeting, the AICPA board of directors:

- ☐ Authorized the CPE Executive Committee to expose for public comment a *Statement on Standards for Formal Continuing Professional Education Programs*;
- ☐ Appointed a board committee to respond to the recommendations in the report of the special committee on governance and structure;
- ☐ Received a report from the state legislation committee and agreed that proposed revisions to the Model Public Accountancy Bill should be discussed with the National Association of State Boards of Accountancy as part of the development of a joint bill;
- ☐ Referred to the board of examiners the report of the testing of verbal skills special committee, which recommends that sufficient points be assigned for verbal skills so that candidates will consider them an important aspect of the CPA examination;
- ☐ Confirmed that the names of firms terminated from approved practice-monitoring programs should be published in an AICPA periodical, and recommended that Council adopt an implementing resolution to that effect;
- ☐ Agreed that the federal taxation executive committee should adopt a two-year cycle for its chairman and that continuity should be provided by transitional years of service as vice-chairman and as immediate past chairman;
- ☐ Received a report from Charles Bowsher, CPA, U.S. comptroller general, on matters of interest to the profession, who urged the Institute to continue its efforts to improve federal financial management.

## FASB Issues Statement on Financial Instrument Disclosure

The Financial Accounting Standards Board has issued Statement no. 105, *Disclosure of Information About Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, requiring disclosures of information about financial instruments with off-balance-sheet risk. Effective for fiscal years ending after June 15, 1990, the statement also affects small businesses because it requires disclosure of significant concentrations of credit risk arising from all financial instruments, including trade accounts receivable.

The statement requires all entities with financial instruments that have off-balance-sheet risk to disclose the face, contract, or underlying principal involved; the nature and terms; the accounting loss that could occur; and the company's policy regarding collateral or other security and a description of the collateral.

## GASB Issues Exposure Draft on Financial Reporting Entity

The Governmental Accounting Standards Board has issued an exposure draft that would establish standards for defining the financial reporting entity and for reporting financial data of the organizations that make up that entity. The draft also proposes standards for reporting government participation in joint ventures.

Under the proposal, the reporting entity would include the primary government and all organizations for which the primary government is accountable. It also includes other governmental organizations when the nature and significance of their financial relationship is such that to exclude them would be misleading to users of financial statements.

Comments on the document are requested by July 13. A public hearing is scheduled for June 6 in Nashville.

## SEC Seeks Deputy Chief Accountant

The SEC is seeking a CPA with extensive technical and managerial experience in accounting and at least one year as a senior executive to serve as deputy chief accountant. Reporting to the chief accountant, the person selected will play a key role in shaping accounting and financial reporting policies. For more information, call immediately 202/272-2700.



## **AICPA Disciplinary Actions**

At a meeting of a hearing panel of the Joint Trial Board on October 5, 1989, in Kansas City, Missouri, Jerrold L. Gottlieb of Overland Park, Kansas, was found guilty of violating the Institute's Code of Professional Conduct by failing to exercise due professional care, failing to comply with generally accepted auditing standards and failing to follow standards and procedures required in governmental audits in connection with audits of two housing and urban development projects for the year ended December 31, 1984, and two housing and urban development projects for the year ended December 31, 1985.

The respondent's CPA certificate had been suspended from December 1, 1987 to January 31, 1988 by the Missouri and Kansas state boards of accountancy in connection with the same audits. The hearing panel directed that his AICPA membership be suspended retroactively for the same sixty-day period and that he be required to take fifty-five hours of specified continuing professional education courses within one year of the hearing panel's decision and that his firm, which is scheduled for a quality review in November 1990, arrange for a reviewer or reviewers to be selected from the roster of reviewers from firms which have received an unqualified peer review report. Mr. Gottlieb, who was present at the hearing, did not request a review of the decision, which, therefore, became effective on November 4, 1989.

At a meeting of a hearing panel of the Joint Trial Board in New York City on December 15, 1989, Howard Christopher Moss of Washington, D.C., was found guilty of violating the Institute's Acts Discreditable Rule and was admonished. The violation involved his indicating in 1982 on an internal data sheet of an employer for whom he was working part-time that he had been employed by one of the eight largest firms for two years, when, in fact, he had not. Mr. Moss, who was present at the hearing, did not request a review of the decision, which, therefore, became effective on January 14, 1990.

At a meeting of a hearing panel of the Joint Trial Board in Kansas City, Missouri, on October 5, 1989, the panel found Barbara Elaine Ducote of Lilburn, Georgia, guilty of failing to cooperate with the Institute's professional ethics division in its attempt to investigate her conduct in connection with three arrest warrants issued by a Georgia court, and voted to expel her from membership in the AICPA.

The hearing panel stayed its decision, however, because at the time of the hearing, which Ms. Ducote did not attend, there was uncertainty as to whether she was deceased. Subsequent to the hearing, information was received that Ms. Ducote had been convicted on July 21, 1989, in the Superior Court of Gwinnett County, Georgia, on her plea of guilty to theft by taking. It was also determined that information alleging that she was deceased was incorrect. Accordingly, on January 31, 1990, Ms. Ducote was advised that her AICPA membership was terminated.

## **Correction on Life Insurance Coverage**

In the special insert sent only to industry members with the April 2 *Letter*, the available coverage under the CPA Plan (for individuals) was misstated. The maximum coverage for both life insurance and accidental death benefits has been recently increased to \$750,000 for eligible members and spouses.

## **Additions to AICPA Nominees**

The Nominations Committee Report included in the March 20 *Letter* did not mention the following additional nominees for the quality review executive committee: Dennis G. Carey, New Hampshire; Diane S. Conant, Nevada; Allen G. Katz, Massachusetts; and Gary W. Reynolds, Oregon.

---

The CPA Letter (ISSN 0094-792x), April 19, 1990. Published semimonthly, except July and August, when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036-8775. Second-class postage paid at New York, N.Y., and at additional mailing offices. Copyright © 1990 American Institute of Certified Public Accountants, Inc. Postmaster: Send address changes to Circulation Department, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

# Are You Familiar With All The Latest Standards Issued By The AICPA And FASB?

*Do you know how to apply them in actual practice?*

Now  
available...

**Comprehensive and reliable references that provide you with the  
information you need to know.**

## **Codification of Statements on Standards for Attestation Engagements as of January 1, 1990**

*(available March 15, 1990)*

This handy reference includes all *Statements on Standards for Attestation Engagements* currently in effect. It also includes *Statements on Standards for Accounting Services on Prospective Financial Information* and two Interpretations. The book combines all the material contained in AICPA Professional Standards Sections AT 100-300 and AT 9100. The 1990 edition includes a modification to Attestation Engagement Interpretation No. 1 of AT Section 100, *Attestation Standards*, "Defense Industry Questionnaire on Business Ethics and Conduct."

**Product No. 057260**

List price: \$10.00

**Discount price to AICPA members: \$8.00**

## **Codification of Statements on Standards for Accounting and Review Services as of January 1, 1990**

*(available March 15, 1990)*

All *Statements on Standards for Accounting and Review Services* currently in effect have been organized by subject and fully indexed in this new edition. It reflects the changes required by the new SASs and the new Code of Professional Conduct. It also includes editorial changes to the Illustrative Engagement Letter for the Review of Financial Statements at AR Section 100.54. In addition to SSARs, the volume includes Accounting and Review Statement Interpretations... several useful appendixes... and a comprehensive topical index.

**Product No. 057161**

List price: \$9.00

**Discount price to AICPA members: \$7.20**

## **Codification of Statements on Auditing Standards Nos. 1-63 as of January 1, 1990** *(available March 15, 1990)*

The "expectation gap" SASs are having a major impact on how you conduct audit engagements. Therefore it is essential that you have this updated guide to current auditing standards. The new 1990 edition contains all the SASs in effect as of January 1, 1990. New material for 1990 includes SAS 63 "Compliance Auditing Applicable to Government Entities and Other Recipients of Governmental Financial Assistance"... Auditing Interpretation No. 7 of SAS No. 1 Section 543. *Part of Audit Performed by Other Independent Auditors* entitled "Reporting on Financial Statements Presented on a Comprehensive Annual Financial Report of a Governmental Entity When One Fund Has Been Audited By Another Auditor"... Modification to Attestation Engagements Interpretation No. 1 of AT Section 100, *Attestation Standards* entitled "Defense Industry Questionnaire on Business Ethics and Conduct."

**Product No. 059020**

List price: \$36.00

**Discount price to AICPA members: \$28.80**

### **SPECIAL PRICE FOR THREE-VOLUME SET**

#### **A 20% Savings**

Codification of Statements on Auditing Standards as of January 1, 1990

Codification of Statements on Standards for Accounting and Review Services as of January 1, 1990

Codification of Statements on Standards for Attestation Engagements as of January 1, 1990

**Three-Volume Set Product No. 058958**

List price: \$45.00

**Discount price to AICPA members: \$36.00**

*Continued on back.*

**Index to Accounting and Auditing  
Technical Pronouncements  
as of October 1, 1989**

No matter how well you keep up with current developments it is virtually impossible to know all of the requirements and recommendations that have been issued by the various professional and governmental authorities. The *Index* enables you to quickly and easily locate all of the current standards and guidelines that affect virtually any subject you may be working with. It covers a wide range of audit and accounting principles, practices and procedures. The listings tell you which statement, bulletin guide, interpretation, government regulation, etc. should be considered.

**Product No. 003481**

List Price: \$37.50

**Discount Price to AICPA Members: \$30.00**

**1990 Accounting and Auditing Update  
Handbook**

BY DOUGLAS R. CARMICHAEL, PHD, CPA; STEVEN B. LILIEN, PHD, CPA; MARTIN MELLMAN, PHD, CPA; ALL OF BERNARD M. BARUCH COLLEGE, CITY UNIVERSITY OF NEW YORK AND MONA E. SEILER, MBA, CPA, QUEENSBOROUGH COMMUNITY COLLEGE, CITY UNIVERSITY OF NEW YORK.

The *1990 Accounting and Auditing Update Handbook* discusses the major pronouncements and standards issued over the past two years by the AICPA and FASB. It anticipates potential problems you may face when applying the new rules and uses a variety of examples to show you how to implement them. For anyone responsible for conducting engagements in conformity to current rules, the *1990 Accounting and Auditing Update Handbook* is an invaluable guide and an indispensable tool.

**Product No. 029615**

List price: \$57.50

**Discount price to AICPA members: \$46.00**

**Order Form**

American Institute of CPAs  
P.O. Box 1003  
New York, NY 10108-1003

**Yes!** I want to keep up with all the latest standards.  
Please send me the following publications.

\_\_\_\_\_ **Codification of SASs Nos. 1-63**  
(No. 059020) @ \$28.80

\_\_\_\_\_ **Codification of SSARs**  
(No. 057161) @ \$7.20

\_\_\_\_\_ **Codification of SSAEs**  
(No. 057260) @ \$8.00

\_\_\_\_\_ **3-Volume set of the above**  
(No. 058958) @ \$36.00

\_\_\_\_\_ **Index to Accounting & Auditing  
Technical Pronouncements**  
(No. 003481) @ \$30.00

\_\_\_\_\_ **1990 Accounting and Auditing Update  
Handbook** (No. 029615) @ \$46.00

Shipping and handling \$ \_\_\_\_\_

Sales Tax \$ \_\_\_\_\_

Total \$ \_\_\_\_\_

**Payment Method**

☐ Payment Enclosed      ☐ MasterCard  
☐ Bill Me                      ☐ Visa

Card Account No. \_\_\_\_\_ Expiration Date \_\_\_\_\_

Signature \_\_\_\_\_

**Shipping and handling Fees**

Less than \$10	\$2.50	\$50.01-\$150	\$5.95
\$10.01-\$25	\$3.95	Over \$150	4% of total
\$25.01-\$50	\$4.95		

*Please add 8 1/4 % sales tax in New York City. Elsewhere in New York State add 4% state tax plus local tax, if applicable. In Washington, DC add 6% tax and in Vermont add 4% state tax.*

**Or Call Our Toll Free No. 1-800-334-6961  
(In New York State: 1-800-248-0445).**

**When calling please be  
prepared to give operator  
your AICPA member no., product numbers  
and key number CPA 390.**

Member No. \_\_\_\_\_

Name \_\_\_\_\_

Firm \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

## Highlights of AcSEC Meeting

At its March meeting, the accounting standards executive committee:

- ☐ Adopted a suggestion from the FASB to clarify the guidance on determining intent to hold investments in debt securities in the proposed statement of position (SOP), *Reporting by Financial Institutions of Debt Securities Held as Assets*;
- ☐ Discussed the FASB's comments on the proposed audit and accounting guide, *Common Interest Realty Associations*. Final issuance will be considered at the committee's May meeting;
- ☐ Discussed a draft of a proposed audit and accounting guide, *Audits of Employee Benefit Plans*. Further discussion and possible approval for exposure is on the May agenda;
- ☐ Suggested certain revisions to a proposed SOP, *Reporting on Advertising Activities*, and expected to review a revised draft at the June meeting;
- ☐ Approved an exposure draft of an SOP, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, to be issued this month.

## Conferences and MAS Training Scheduled

Two AICPA *National Practice Management Conferences* have been set: July 16-18 in Las Vegas (cosponsored by the Nevada Society of CPAs) and October 8-10 in Chicago (cosponsored by the Illinois CPA Society).

Featured speakers at the summer presentation will include AICPA Board Chairman Charles Kaiser, on "Navigating the 90s"; Robert Gallagher of R.J. Gallagher Associates, on "Managing Firm Profitability"; and Dr. Layne Longfellow, president of Lecture Theatre, Inc., on "Managing the New Professional." A wide variety of concurrent sessions will be offered to participants.

The fall program will offer general and concurrent sessions on such topics as "Developing the Partnership Team," by Jerry Atkinson of Atkinson & Company; "Staffing Realities for the 1990s," by Eugene Cohen of E.M. Cohen Associates, Inc.; and the "Peak Performer's Attitude," by Rick Barrera of Alessandra and Associates. Conference cost for each presentation is \$500 (\$55 for guests).

Two sessions of the *National Small Firm Conference* will be held this year: August 15-17 in Boston (cosponsored by the Massachusetts Society of CPAs); and October 31-November 2 in San Diego. Aimed at sole practitioners and managing partners of small firms, it will offer concurrent and optional evening sessions. Registration fee is \$475 (\$75 for guests).

For information on the above conferences, contact the AICPA industry and practice management division at 212/575-3814.

The 1990 *National MAS Training Programs* will be held at Ohio State University in Columbus. An introductory program will be held from June 11-15 (registration fee is \$1,195), and an advanced course will be held from June 18-22 (registration fee is \$1,395). For further information, call Lynne Comer of OSU at 614/442-1316.

## Al Jennings Dies at 85

Alvin R. Jennings, retired managing partner of Coopers & Lybrand, and former president (title since changed to chairman of the board) of the AICPA, died in Florida on March 14.

A career-long accountant with the firm, he became a partner in 1940 and served as managing partner from 1954 to 1962. As AICPA president (1957-58), Mr. Jennings was instrumental in establishing the Accounting Principles Board and was one of its early chairmen.

## AICPA Members Appointed to Government Committees

David M. Walker, national director of compensation and benefits for Arthur Andersen & Co., was named to the Advisory Council on Employee Welfare and Pension Benefit Plans by the Secretary of Labor.

Donald J. Hayes, partner, Ernst & Young, was named to the Cost Accounting Standards Board by the Administrator of the Office of Federal Procurement Policy.

## Washington Briefs

**Financial Planning Bill Introduced**—Rep. Rick Boucher (D-Va.) has introduced a bill to require all who hold themselves out to be financial planners or investment advisers to register with the SEC under the Investment Advisors Act of 1940. The bill, HR 4441, requires advisers and financial planners to disclose information on their qualifications and sources of income, such as investment commissions and brokerage fees. The bill also would make it easier for individuals to sue accountants, lawyers and others who act as financial planners and investment advisers for damages and fraud by eliminating the professional exemption contained in the act when the practitioner receives special compensation for such services. The AICPA is working with Boucher to make more realistic the liability exposure of accountants and others offering investment and financial planning advice. For copies of the bill, call or write to your congressman.

**Defined-Benefit Plan Audits**—The IRS is auditing some 18,000 defined-benefit pension plans covering one to five people. Examiners are questioning any plan using an interest rate of less than eight percent or a retirement age of less than 65. The AICPA tax division may seek legislative relief and wants to know of members' experiences with such audits. Write to Lisa A. Winton, AICPA, 1455 Pennsylvania Ave., Washington, D.C. 20004.

**Comment Deadline Extended**—In response to an AICPA request, the deadline for commenting on IRS Notice 90-20, regarding penalties under Section 6662 and Section 6694, has been extended to June 1. See IRS Bulletin 1990-16, dated April 16.

**FDIC and RTC Adopt Contract Policy**—The Federal Deposit Insurance Corporation and the Resolution Trust Corporation have adopted a policy regarding contracts with firms, including accounting firms, with which they are in litigation. Waivers allowing the firms to continue to work with the agencies may be granted if the firms meet certain qualifications and other requirements. For more information, call the RTC at 202/898-3616. Firms and individuals interested in providing contract and other services to the RTC may call 202/416-4687 for contract information.

**REA to Issue Audit Rules**—The March 20, 1990, *CPA Letter* reported that the Rural Electrification Administration (REA) requires auditors to adhere to generally accepted auditing standards for audits of financial statements for December 31, 1989. However, it failed to note that the REA intends to issue rules during 1990 that will require audits of financial statements after December 31, 1989, to be conducted in accordance with governmental auditing standards. The new requirement will be published in the *Federal Register* shortly. For further information, contact REA Technical Accounting and Auditing staff at 202/382-8227.

---

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

May 11, 1990  
Vol. 70 No. 7

# The CPA Letter

**A Membership News Report Published by the AICPA**

## **AICPA Says Simpler Rules Would Help Narrow "Tax Gap"**

To narrow the \$113 billion tax gap between what's owed in taxes and what's paid, tax law should be simplified and the IRS should be given more money for enforcement and to modernize its computers, testified Arthur Hoffman, chairman of the AICPA Federal Taxation Executive Committee. Addressing the House Ways and Means Subcommittee on Oversight April 19, Hoffman also said that providing more taxpayer education and requiring more informational reporting, including such reporting from commercial business suppliers, would help to reduce the tax gap. A major cause of noncompliance is the intricacy of IRS rules and regulations, Hoffman said, adding that the AICPA got more than 10,000 letters in response to an April 8 Ann Landers column on tax complexity. The column quoted from the passive loss regulations and told readers who found them incomprehensible to send the column to the AICPA, which forwarded them to the Ways and Means Committee. Hoffman also delivered a package of tax-simplification recommendations in response to a study by Committee Chairman Dan Rostenkowski (D-Ill.). To get a copy of the recommendations, send a self-addressed, stamped envelope, including \$1.65 in postage, to Tax Simplification Recommendations, AICPA, 1455 Pennsylvania Ave., NW, Washington, D.C. 20004.

## **FASB Revises OPEB Proposal**

The Financial Accounting Standards Board (FASB) tentatively decided recently to make two revisions to its exposure draft, *Accounting for Postemployment Benefits Other Than Pensions*. In one change, FASB said it would not require recognition of a minimum liability for postretirement benefits. In the other, FASB said the substance of a benefit plan for retirees should be the basis for accounting for the plan rather than rigidly interpreting the written language of the plan. This revision was needed because employers often change the way they apportion health-benefit costs to retirees, and those changes may differ from the written plan description, said FASB project manager Diana Scott. FASB intends to issue a final statement by year-end.

## **New CPE Requirement Applies to All Members**

Effective for the first time this year, *all members* (except retirees)—even those members who are not in public practice—are required to take CPE courses to continue their membership. Information is being prepared for distribution with dues bills in July that will highlight the new requirements. Adopted as part of the Plan to Restructure Professional Standards, the new requirements apply, beginning this year, as follows:

- ☐ Members not in public practice must complete 60 hours of CPE during the first three-year reporting period, including a *minimum* of 10 hours each year.
- ☐ Members in public practice must complete 120 hours of CPE for each three-year reporting period, including a *minimum* of 20 hours each year.

For answers to questions about the new requirements, write to Michele Thomas, technical adviser—CPE Division, at the AICPA. Or, if you did not receive a copy of the brochure, *Policies for CPE Membership Requirement* with the February *Journal of Accountancy*, call the Order Department (800/334-6961 or 800/248-0445 in New York State) and ask for the product number G00560. The first five copies are free.

## **Theme for Annual Meeting Is "Navigating the 90s"**

"Navigating the 90s" is the theme for the 103rd AICPA annual meeting, which will be held Oct. 22 to 24 in Baltimore. This year, discussion groups of members will focus on such issues as meeting the needs of the membership and members' practices or organizations. Speakers will include author John Naisbitt; Harvard professor Charles Nesson; and Bankers Trust Co. economist Jay Woodworth. For more information, call Meetings and Travel Services, 212/575-6451.

## **Firms Auditing SEC Clients Face Deadline to Enroll in SECPS**

CPA firms auditing SEC clients must enroll by July 31 in the SEC Practice Section (SECPS), or the AICPA members associated with those firms will not be permitted to retain their Institute memberships. Members voted overwhelmingly in January to amend the bylaws to require firms that audit clients registered with the SEC (as defined below) to join the SECPS of the Division for CPA Firms. SECPS members submit to periodic peer review and public oversight.

The SECPS has sent membership applications and information about peer review requirements to more than 700 firms that may be affected by the amendment. Generally, a firm that has not already had a peer or quality review will have until Sept. 30, 1991, to complete its initial SECPS peer review. Firms that audit SEC clients and need membership applications should write to the AICPA SEC Practice Section, 1211 Avenue of the Americas, New York, N.Y. 10036-8775, or call 212/575-6366.

The following is the full text of Section 2.3 of the bylaws and the implementing resolution. (New language appears in *italics*).

### **2.3 Requirements for Retention of Membership**

Members of the Institute shall

2.3.1 Pay dues as established by Council.

2.3.2 Conform with these bylaws and the Rules of the Code of Professional Conduct.

2.3.4 Engage in the practice of public accounting only with a firm that is enrolled in an Institute-approved practice-monitoring program.

2.3.5 *Engage in the practice of public accounting with a firm auditing one or more SEC clients as defined by Council only if that firm is a member of the SEC Practice Section.*

The text of the implementing resolution adopted by Council in January follows.

*Resolved: That for purposes of Section 2.3, an SEC client is*

*An issuer making an initial filing, including amendments, under the Securities Act of 1933.*

*A registrant that files periodic reports (for example, forms N-SAR and 10-K) with the SEC under the Securities and Exchange Act of 1934 (except brokers or dealers registered only because of Section 15 (a) of that Act) or the Investment Company Act of 1940.*

## **Highlights of Auditing Standards Board Meeting**

At its April meeting, the Auditing Standards Board:

- ☐ Received a report on the Financial Accounting Research Foundation's project on developing integrated guidance on internal controls and reviewed a proposed attestation standard on accountant reporting on management's evaluation of the adequacy of internal controls;
- ☐ Discussed the reasons why it is considering the development of guidance on using all types of confirmations and reviewed how a task force's draft of a proposed SAS contains guidance in response to those reasons;
- ☐ Approved technical amendments to SAS no. 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*, for inclusion in the 1990 Omnibus SAS;
- ☐ Agreed to ballot as an exposure draft a proposed SAS, *Communication About Matters Involving Interim Financial Information Filed or to Be Filed with Specified Regulatory Agencies*, which would establish communication requirements to management, and, in certain instances, audit committees about matters that materially affect interim financial information filed or to be filed with the SEC or other specified regulatory agencies;
- ☐ Reviewed a draft of a proposed revision to SAS no. 44, *Special-Purpose Reports on Internal Accounting Control at Service Organizations*, which would guide service auditors who report on transaction processing by a service center and guide user auditors who report on the financial statements of the service center's user.

## The 150-Hour Requirement: How CPA Firms Plan to Adapt

by Donald D. Acton and Sharon M. Davidson

(Copyright © 1989 by Ohio Society of CPAs)

*(While much has been written about the need for and importance of the 150-hour requirement, very little work has been published on the firms' plans in adapting to the new requirements. This excellent article—a slightly edited version of one that appeared in the summer 1989 issue of The Ohio CPA Journal—addresses this issue. Drs. Acton and Davidson are on the faculty of Alfred University in Alfred, New York. The article is reprinted with permission from The Ohio CPA Journal, a publication of the Ohio Society of CPAs.)*

For years accounting educators and practitioners have proposed education beyond the traditional four-year accounting degree. The need for additional educational requirements as well as states' legislative experience with a 150-hour requirement have been identified and discussed extensively in the literature.<sup>1</sup> There has been little discussion, though, of how CPA firms will adapt to and how new employees in public accounting will acquire the additional 30 hours of collegiate level education.

In the case of Florida, 150-hour legislation changed recruiting practices during the first five years. Many baccalaureate degree holders were hired by CPA firms due to an inadequate supply of 150-hour accounting graduates. To continue in public accounting, however, these employees were obligated to complete additional formal education, either on a part-time basis while still in the work force or on a full-time basis as permitted by their firms. The alternative courses of action available to these employees were to remain as paraprofessionals or leave public accounting. CPA firms thus had to consider whether to subsidize these employees to obtain the additional education required to attain professional status.

This article examines, by means of responses to a questionnaire, how CPA firms in New York State would expect to cope with a 150-hour requirement to sit for the CPA examination, during and after the transition period. The transition period is the time period from the effective date of such requirement until CPA firms would be able to satisfy their demand for entry-level employees who already meet the 150-hour requirement. Florida's experience indicates that there will not be enough 150-hour accounting

graduates to satisfy the related demand of CPA firms for a period of perhaps one to five years.

### Survey

A questionnaire was used to obtain information about how CPA firms will adapt to a 150-hour education requirement. The questionnaire was sent to the personnel director or recruiting partner at each of 164 New York firms, ranging by number of professionals, from sole practitioners to international firms with up to 2,559 professionals. Responses were received from 90 firms, for a 55% response rate. This high response rate, plus conversations with practitioners, indicated that many CPA firms had given serious consideration to the issues addressed in the questionnaire. For the purpose of analysis, the firms were categorized into three groups on the basis of firm size (see Table 1).

### Educational Assistance

The surveyed personnel directors and recruiting partners were asked to indicate the level of assistance currently provided by their firms to professional employees who wish to pursue additional education and whether the assistance was unrestricted (i.e., available to all) or restricted (i.e., limited to some employees). The levels of assistance were 1) tuition assistance for part-time study, 2) release time for part-time study, 3) unpaid leaves for full-time study and 4) paid leaves for full-time study.

Table 2 shows that, in the unrestricted category, not more than 10% of the firms provided tuition assistance and/or release time for part-time study and unpaid leaves of absence for full-time study. No firms provided paid leaves of absence. The small and medium firms provided the greatest level of educational support available to all employees; the large firms provided no unrestricted educational assistance.

Restricted assistance, which was available to some but not all employees, was provided by the firms more frequently than unrestricted assistance.

(continued on page 2)

### Three More States Approve 150-Hour Legislation

Three more states have passed legislation to require 150 hours of education for CPA candidates. They are Kansas (effective in 1997), Kentucky (2000), and Mississippi (1995). The governors of all three states have signed the legislation into law. Also, Utah, which has the 150-hour requirement in effect, amended its law to conform the language with that recommended by the AICPA.

This brings to eleven the number of states that have passed the 150-hour requirement. These states comprise nearly 20% of the candidates who take the Uniform CPA Examination.



# How Firms Plan to Adapt *(continued from page 1)*

Moreover, restricted assistance was offered more frequently as firm size

part-time study and unpaid leaves for full-time study. No firms expect to provide paid leaves of absence for full-time study. More large firms expect to provide tuition assistance and release

study was essentially the same among all firm groups. For the other three levels of assistance, there were significant differences among the groups. The medium firms have the highest percentage for tuition assistance (47%) and unpaid leaves for full-time study (47%), and the large firms have the highest percentage of paid leaves of absence (25%).

A comparison of the percentages shown in Tables 2 and 3 suggests that, relative to their current levels of assistance, the large firms expect to drastically reduce all levels of restricted assistance in the first year of a 150-hour requirement and to increase unrestricted assistance in the form of tuition assistance for part-time study, release time for part-time study and unpaid leaves for part-time study. The medium firms expect to increase

**TABLE 1**  
*Personnel Directors and Recruiting Partners Surveyed By Firm Size*

Group	Size	Number Surveyed	Percentage of Firms in Directories	Percentage of Professionals in Directories	Response Rate
Small firms	1-40	118	70%	10%	57%
Medium firms	41-510	37	25	25	51
Large firms	511-2559	9	5	65	44
Totals		164	100%	100%	

increased. For example, from 4% to 19% of the small firms provided at least one of the four levels of assistance, whereas 50% to 75% of the large firms provided these same assistance levels. In addition, there was a weak, negative correlation within the firms between a particular level of unrestricted assistance and the same assistance on a restricted basis. Firms that provided tuition assistance for part-time study on an unrestricted basis, for instance, typically did not offer tuition assistance for part-time study on a restrictive basis.

The respondents also were asked to assume that, in the first year of a 150-hour requirement, there would not be enough 150-credit hour accounting graduates to satisfy their entry-level demands. They then were asked, "What assistance do you expect your firm to provide to accounting bachelor degree holders...who wish to reach the 150-credit hour level?"

Table 3 shows that, regarding unrestricted assistance, the assistance most frequently expected to be given by all firm groups was release time for

time for part-time study and unpaid leaves of absence for full-time study than small and medium firms. Also, as firm size increases, so does the percentage of firms expecting to provide the assistance level. The larger firms' percentages are higher than those of

**TABLE 2**  
*Percentage of Firms Currently Providing Educational Assistance*

Type of Assistance	Firm Group		
	Small	Medium	Large
Unrestricted			
Tuition/Part-Time Study	10%	5%	0%
Release Time/Part-Time Study	9	10	0
Unpaid Leave/Full-Time Study*	10	5	0
Paid Leave/Full-Time Study	0	0	0
Restricted			
Tuition/Part-Time Study*	19	47	75
Release Time/Part-Time Study*	13	26	75
Unpaid Leave/Full-Time Study	16	21	50
Paid Leave/Full-Time Study*	4	11	50

\* The percentage differences among the firm groups for this type of educational assistance are statistically significant at the .05 level.

medium firms and medium firms' percentages are higher than those of small firms.

In the area of restricted assistance, the percentage of firms expecting to provide release time for part-time

unrestricted assistance through release time for part-time study and unpaid leaves of absence for full-time study and restricted assistance in the form of unpaid and paid leaves for full-time study. The small firms expect to increase unrestricted release time for part-time study and unpaid leaves of absence for full-time study; in the restricted category, they expect to increase tuition assistance for part-time study and release time for part-time study.

These data also suggest that new employees entering public accounting during the transition period without 150 hours of collegiate education can expect, in general, greater availability of unrestricted assistance with larger firms. The greater the firm size, the

**TABLE 3**  
*Percentage of Firms Expecting to Provide Educational Assistance after 150-hour Legislation*

Type of Assistance	Firm Group		
	Small	Medium	Large
Unrestricted			
Tuition/Part-Time Study*	10%	5%	50%
Release Time/Part-Time Study	19	26	50
Unpaid Leave/Full-Time Study	13	21	50
Paid Leave/Full-Time Study	0	0	0
Restricted			
Tuition/Part-Time Study*	22	47	0
Release Time/Part-Time Study	28	26	25
Unpaid Leave/Full-Time Study*	16	47	0
Paid Leave/Full-Time Study*	3	21	25

\* The percentage differences among the firm groups for this type of educational assistance are statistically significant at the .05 level.

*(continued on page 4)*

## The 1990 Supply and Demand Report

The twentieth edition of *The Supply of Accounting Graduates and the Demand For Public Accounting Recruits* will be published in May, 1990. The survey has been expanded and enhanced, providing more comprehensive information in a more readable format. Additionally, the revised format of the report will include graphics.

For the 1990 edition of the report, the AICPA surveyed over 14,000 public accounting firms and over 770 schools. A different method of estimating for nonrespondents—regression analysis—was employed in this year's survey. The overall response rate for the public accounting firms was 35% and the overall response rate for schools in the survey was 61%. The AICPA is grateful to all of those firms and schools that participated in the survey.

Copies of the report will be available for distribution in late May, 1990. Designated individuals in every accounting department will automatically receive a copy of the survey; additional copies may be requested from Marylou Walsh at (212) 575-6357.

## Williams Receives 1990 Outstanding Accounting Educator Award

At the AICPA Council meeting on May 23, the 1990 AICPA Outstanding Accounting Educator Award will be presented to Doyle Z. Williams, KPMG Peat Marwick Professor of Accounting at the University of Southern California. The award is presented annually in recognition of the invaluable contributions of accounting educators to the profession.

Doyle Williams epitomizes the qualities of an outstanding accounting educator, as evidenced by his influence as a teacher, his commitment to quality, and his leadership role in academic and professional accounting organizations.



Dr. Williams served as founding dean of USC's School of Accountancy from 1978-87. He currently serves as chairman of the American Accounting Association's Accounting Education Change Commission, as a member of the AICPA Board of Directors and as a member of the advisory boards for three schools of accounting.

Dr. Williams' achievements as a teacher have been widely acknowledged. He has also been an active participant in AICPA activities, serving as Vice President, as a member of Council, and on numerous committees, subcommittees and task forces. He is a former President of the American Accounting Association, the Administrators of Accounting Programs Group, the Federation of Schools of Accountancy, and numerous other organizations.

Nominees for the AICPA Outstanding Accounting Educator are submitted by the State CPA Societies. For 1990, 29 state societies participated in the program.

## AACSB Accredits 12 More Programs

At its recent annual meeting, the AACSB Accreditation Council approved the recommendations of the Accounting Accreditation Committee to accredit an additional twelve programs at eight schools, and to reaffirm programs at two schools. Accounting programs are accredited in three types: (A) bachelor's programs, (B) MBA programs with an emphasis in accounting, and (C) Masters of Accounting programs.

The schools approved this year are:

- Ball State University (A)
- Bradley University (reaffirmation of A)
- East Tennessee University (A, C)
- Loyola College in Maryland (A)
- University of Minnesota (A)
- University of New Orleans (C, with reaffirmation of A)
- University of Texas at Austin (A, C)
- University of Wisconsin at Madison (A, B, C)
- Wright State University (A)

This brings to 85 the number of schools, and to 154 the number of programs with accounting accreditation.

## AICPA Awards \$90,950 In Doctoral Dissertation Grants

Through its Grants-In-Aid Program for Doctoral Dissertations in Accounting, the AICPA awarded a total of \$90,950 in 1990 to nine Ph.D. candidates.

The 1990 recipients are:

**Cindy A. Copp, CPA**, University of Florida, \$10,200, "The Differential Effects of the Timing of the Tax Payments and Expectations on the Framing of Income and Expense Tax Reporting Decisions."

**David M. Cottrell, CPA**, Ohio State University, \$10,200, "Financial Statement Precision and Audit Materiality: An Experimental Markets Investigation."

**Andrew D. Cuccia, CPA**, University of Florida, \$10,200, "An Examination of the Effort and Aggressiveness of Professional Tax Preparers: The Effects of Economic Sanctions and Role Perceptions."

**Charles Elliot Davis, CPA**, University of North Carolina at Chapel Hill, \$10,200, "The Effects of Auditor Expertise and Memory Organization on Problem Identification and Hypothesis Generation."

**Leslie G. Eldenburg, CPA**, University of Washington, \$10,200, "The Value of Information in a Cost Containment Environment: An Analysis of the Indirect Agency Relationship Between Hospitals and Physicians."

**Edwin R. Etter, CPA**, Ohio State University, \$10,200, "Accounting Diversity as a Barrier to International Investment."

**David P. Mest, CPA**, University of Texas at Austin, \$9,350, "An Empirical Examination of the Relationship Between Capital Expenditures and Changes in Sales and Profitability."

**Cynthia C. Vines, CPA**, University of Southern California, \$10,200, "An Empirical Investigation of Corporate Tax Shifting Under Varying Regulatory Regimes."

**William F. Yancey, CPA**, University of Texas at Austin, \$10,200, "Capital Gains Tax Reform and the Demand for Risky Investments."

All the recipients are CPAs and all had worked in public accounting and/or industry prior to returning to school to earn their Ph.D.'s. All intend to teach accounting at the university level upon completing their degrees.

# How Firms Plan to Adapt *(continued from page 2)*

greater the likelihood they will receive unrestricted educational assistance. Moreover, the most likely forms of unrestricted assistance available to them will be release time for part-time study and unpaid leaves for full-time study. New employees entering public accounting with small and medium size firms can expect more restricted educational assistance, at all four levels of assistance.

## Other Issues

**Retention.** Three-fourths (75%) of the large firms said they would require new employees to meet the 150-hour requirement to remain with their

**TABLE 4**  
*Ranking of Post-Baccalaureate Subjects*

Subject	Firm Group			
	Overall Mean	Small	Med.	Large
Communication Skills	1.773	1.80	1.81	1.25
Technical Skills*	1.822	1.69	2.13	2.50
General Business	2.072	2.13	1.88	2.25

\*The mean value differences among the firm groups for this subject area are statistically significant at the .05 level.

firms. Only 15% and 11% of the small firms and medium firms, respectively, indicated that 150 hours would be necessary to remain with their firms.

**Recruiting.** Currently among all firms, regardless of size, on average about 96% of their new hires have only a bachelor's degree. After the transition period all size firms expect to fill about one-third of their entry-level positions with bachelor's degree holders and to provide these new hires with educational assistance to attain the 150-hour level. Further, most of the large firms would require 150 hours in order to remain with the firms, whereas, in most cases, the small and medium firms would not require 150 hours to remain with the firm. This supports the conjecture that a paraprofessional class is more likely to

develop in small and medium sized firms.

**In-House Education.** Seventy-five percent of the large firms indicated they have considered in-house education taught by their own professionals to assist new recruits to attain the 150 hours. By comparison, this option has been considered by only 36% of the medium firms and 18% of the small firms. Although this would require approval of a state board of accountancy, it is conceivable that such approval would be granted, at least during the transition period.

**Composition of Additional Education.** The respondents were asked to indicate, on a three-point scale with one being the highest, the importance of the following areas as a part of the additional credit hours necessary to achieve the 150-hour level: technical skills, communication skills, general business and other. As shown in Table 4, communications skills received the highest ranking, followed by technical skills and general business. The small firms, however, gave technical skills the highest ranking, whereas the medium and large firms gave communications skills the highest ranking. There was no item in the other category that was mentioned frequently by the respondents.

**Expected Benefits.** When asked to identify potential expected benefits and costs of a 150-hour requirement, the firms uniformly stated that the greatest expected benefit was improved overall quality of those entering the public accounting profession, followed by improved performance on the CPA exam and improved retention in public accounting.

**Support for 150 Hours.** The 150-credit hour requirement was supported by 78% of the recruiting partners and personnel directors. This support, however, varied among the firm groups. The requirement was supported by all of the large firms, 88% of the medium firms and 74% of the small firms.

## Conclusions

This study examined how New York State CPA firms expect to adapt, during and after the transition period, to a requirement that would require 150 hours to sit for the CPA examination. The results indicate that the surveyed firms expect to provide unrestricted assistance to help their entry-level employees meet the 150-hour requirement, mostly in the form of release time for part-time study and unpaid leaves for full-time study. Paid leaves of absence for full-time study, however, will not be available on an unrestricted basis. Further, the likelihood of receiving assistance will increase as firm size increases. In addition, unrestricted assistance will be provided by larger firms more frequently than restricted assistance, whereas restricted assistance will be offered by small and medium sized firms more frequently than unrestricted assistance. Finally, a class of paraprofessionals consisting of those who do not attain the 150-hour level is more likely to develop in small and medium sized firms than in larger firms, which would require 150 hours in order to remain with the firm. These are among the more significant results of this study. Hopefully, they will be useful to CPA firms in planning their responses to a 150-hour requirement to sit for the CPA examination.

## FOOTNOTE

- See, for example, American Institute of CPAs Commission on Professional Accounting Education, *A Postbaccalaureate Education Requirement for the CPA Profession* (New York: AICPA, 1983); Henry R. Anderson, "The 150-Hour Requirement: Florida's Experience," *The CPA Journal*, July 1988, pp. 56-62; Larry Deppe, Don R. Hansen and Stan Jenne, "The 150-Hour Educational Requirement: The History and Message of the Utah Experience," *Accounting Horizons*, June 1988, pp. 53-57; Robert H. Mills, "Views on Educational and Experience Requirements," *Journal of Accountancy*, October 1985, pp. 106-114; and Robert H. Mills, "Post-Baccalaureate Education of CPAs: Educational Capacity and Perceived Academic Quality of Accounting Students," *Accounting Horizons*, June 1987, pp. 49-58.

- Disciplinary Actions** The following actions were taken under the automatic provisions of the AICPA's bylaws: The membership of Karl W. McCracken of Laramie, Wyo., was terminated on Jan. 8, following the revocation of his certificate and permit to practice by the Wyoming Board of CPAs for undertaking an engagement for the performance of professional services which he could not reasonably expect to complete with due professional competence, in violation of the rules and regulations of the Wyoming board.
- The membership of Gregory J. Saul of Fargo, N.D., was terminated on Nov. 15, 1989, following revocation of his CPA certificate by the North Dakota State Board of Public Accountancy for failing to comply with the board's CPE requirements.
- The membership of Carl E. Wright of Joplin, Mo., was terminated on Jan. 18, following his conviction in a U.S. district court on his plea of guilty to racketeering, fraud and conspiracy to defraud the U.S. government by marketing fraudulent tax benefits and impeding the Internal Revenue Service in its collection of income taxes.
- The membership of Joseph F. Graney of St. Clair Shores, Mich., was terminated on Dec. 6, 1989, following his final conviction in a Michigan circuit court of embezzlement of another while acting as an agent.
- Suspended Member Expelled—The membership of Jerome Rosenberg of Franklin Square, N.Y., was terminated on Feb. 8, following dismissal of his appeal of a judgment of conviction in Nassau County Court of second degree forgery and third degree grand larceny. Mr. Rosenberg's membership had been suspended on Jan. 23, 1985, following his conviction and pending the outcome of the appeal, as reported in *The Letter*, April 22, 1985.
- IFAC Seeks Director General** The International Federation of Accountants (IFAC) is seeking a director general to manage its affairs, act as spokesman for the accounting profession, and represent the IFAC to organizations worldwide. Representing more than 100 countries, including the United States, IFAC offers guidance in such areas as auditing, professional ethics, financial and management accounting, public sector issues and educating accountants. Contact Janet Jones-Parker, Ward Howell International, One Landmark Square, Suite 1810, Stamford, Conn., 06901, 203/964-1481.
- Life Insurance Date Announced** The next entrance date for eligible CPAs to begin or increase spouse life insurance is June 1. As much as \$750,000 in term life insurance and an equal amount of accidental death and dismemberment coverage are available. Invitations and descriptive literature concerning this program were mailed recently. Any member who does not receive this literature or who is seeking more information should contact Rollins Burdick Hunter Co., 605 Third Ave., New York, N.Y. 10158, 800/223-7473. In New York, call collect 212/973-6200 and ask for extension series 440.
- Student Assistance Audit Guide Revised** The U.S. Department of Education has revised its *Audit Guide* for the Student Financial Assistance Program, effective for audits dated on or after June 30, 1990. The guide is free. Call 800/333-4636.
- Georgia CPAs Win Financial Planning Exclusion** The Georgia Society of CPAs won a major victory last month when the state legislature passed HB 1463, excluding licensed CPAs and CPA firms from investment adviser/financial planner registration provisions, provided they do not take commissions or custody of client funds, or recommend specific securities. For a copy of HB 1463, call Sophia Modi, AICPA Washington office, 202/737-6600.

#### NOTICE OF AICPA PUBLIC MEETING

##### Professional Ethics

The Professional Ethics Executive Committee will meet at the AICPA's Washington office, 1455 Pennsylvania Ave., Washington, D.C., on June 20 starting at 9:30 a.m. to consider the following proposed items for exposure: Proposed ruling under rule 101: *Member Joining Client Credit Union*; Proposed ruling under rule 102: *Individual Considering or Accepting Employment with Client*; Proposed ruling under rule 102: *Service on Board of Tax Appeals*; Proposed ruling on rule 102: *MAS Engagement to Evaluate Service Bureaus*; Proposed revision of Interpretation 501-1 under rule 501: *Client Records and Accountant's Workpapers*; Proposed deletion of ruling 34 under rule 101: *Member as Auditor of Common Trust Fund*; Proposed deletion of ruling 47 under rule 101: *Member as Auditor of Mutual Fund and Shareholder of Investment Adviser/Manager*.

## Washington Briefs

**AICPA Seeks Repeal of 2036(c)**—The AICPA told the House Ways and Means Committee that it should repeal IRC section 2036(c), effective retroactively to Dec. 17, 1987. Section 2036(c) threatens the preservation of family businesses because it eliminated the estate valuation freeze technique used by businesses to transfer ownership to the next generation, testified Arthur Hoffman, chairman of the AICPA Federal Taxation Executive Committee. The AICPA is preparing recommendations for modifying a discussion draft on the issue by committee Chairman Dan Rostenkowski (D-Ill.).

**Tax Preparer's Privilege Bill Introduced**—Sen. William Armstrong (R-Colo.) introduced legislation designed to establish an accountant-client privilege. Armstrong said the bill, S. 2452, would protect accountants from having to reveal to the IRS or a court any communication with clients relating to filing tax returns and would protect an accountant's private notes about a client, similar to the "work product" doctrine used to maintain the privacy of a lawyer's work. S. 2452 does not cover information used to calculate tax liability, accounting matters unrelated to tax preparation, or communication relating to criminal activity or fraud, he said. For a copy of the bill, send a stamped, self-addressed envelope to Tax Preparer's Privilege, AICPA, 1455 Pennsylvania Ave., NW, Washington, D.C. 20004.

**IRS Revises Real Estate Reporting Requirements**—The IRS proposed regulations under IRC section 6045(e) that would require information reporting on a wide variety of real estate transactions closing on or after Jan. 1, 1991. Comments on the regulations are due by June 18; the IRS has scheduled a hearing for Sept. 24. For details, see the *Federal Register*, April 18.

**SEC's Professional Accounting Fellows Named**—The SEC named three new professional accounting fellows to two-year terms beginning next month. They are Douglas N. Barton, Deloitte & Touche, Wilton, Conn.; Stephen C. Blowers, Ernst and Young, Cleveland; and Margaret R. Horvath, Coopers & Lybrand, Richmond, Va. They will work with the SEC's chief accountant to develop securities rules, provide liaison with standards-setting bodies, and consult with registrants.

**Home-Office Expense Deductions**—The IRS said it will not follow a recent Tax Court decision that would have made it easier for taxpayers to deduct home-office expense deductions. In the case, *Soliman v. Commissioner*, the court abandoned the focal-point test and adopted a facts-and-circumstances test. Under the decision, a taxpayer could deduct home-office expenses if the home is essential to the business, and if the taxpayer spends substantial time there and has no other location for office functions. The IRS has asked the court to reconsider its decision and may appeal.

---

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

# The CPA Letter

## A News Report to Members

June 8, 1990  
Vol. 70 No. 8

### What's Inside

Amendment Proposed to "Going Concern" Report . . . . .	3
Spring Council Meeting News . . . . .	4
Meeting Notices . . . . .	4
Meeting Highlights . . . . .	5
Disability Coverage Deadline Looms . . . . .	5
Disciplinary Actions . . . . .	5
News Briefs . . . . .	6
Publications and Software . . . . .	7
Washington at a Glance . . . . .	8

## AICPA to Enforce Rules on Commissions and Contingent Fees

*Council acts despite FTC inaction.*

The governing Council of the AICPA has voted—with only one member in opposition—to enforce the Institute's Rules of the Code of Professional Conduct in accordance with a Proposed Order of the Federal Trade Commission (FTC). In the Proposed Order, signed in September 1988, the FTC staff and the AICPA had agreed that the Institute could prohibit its members from accepting contingent fees and commissions from clients for whom the AICPA member also provides "attest services," as defined.

Recognizing that "continued deferral of enforcement could lead to disregard and nonobservance of the challenged rules," Council voted to enforce the rules to the full extent permitted under the Proposed Order. In a final action, Council voted to replace AICPA rules on commissions and contingent fees with new rules in the event that, prior to the next Council meeting, the FTC issues a Final Order substantially similar to the Proposed Order. (See the following "Statement on Enforcement of Ethics Rules." See also, "Spring Council Meeting News," Page 4.)

### Statement on Enforcement of Ethics Rules

At its meeting on May 23, 1990, the governing Council withdrew the policy of deferring enforcement of the Rules of the Code being challenged in an investigation by the Federal Trade Commission staff which began on Jan. 5, 1985. The challenged rules have not been enforced since July 1987.

When the policy of deferring enforcement was announced to members in *The CPA Letter*, July 1987, it was clearly stated that during the deferral period, the rules would remain in force, complaints would be received, and the activities complained of would be measured against the standards adopted after the FTC has acted.

Because of the lengthy delay in the FTC's taking final action on this matter, Council has decided that enforcement of the challenged rules should no longer be deferred. Rather, the existing rules, which ban all commissions and most contingent fees, will be enforced in the following circumstances:

If a member or the member's firm performs for a client: a) an audit or review of a financial statement; or, b) a compilation of a financial statement when the member expects, or reasonably

might expect, that a third party will use the financial statement and the member's compilation report does not disclose a lack of independence; or, c) an examination of prospective financial information, he or she may not perform any professional service for that client for a contingent fee, nor receive a contingent fee from that client.

These proscriptions would apply to any engagement performed under an arrangement whereby no fee is charged unless a specified finding or result is obtained, or in which the amount of the fee is otherwise dependent on the findings or results of the member's services.

In addition, members who perform for a client the services listed in a); b) or c) above may not for a commission recommend or refer to that client any product or service or, for a commission recommend or refer any product or service to be supplied by that client, or receive a commission for such recommendation or referral.

These prohibitions apply during the period in which the member is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in such listed services.

---

## Statement Proposed on Reporting Debt Securities

*Banks, S&Ls, credit unions, finance and insurance companies are affected.*

The Accounting Standards Executive Committee issued an exposure draft of a proposed statement of position, *Reporting by Financial Institutions of Debt Securities Held as Assets* (product number G00401). Comments on the proposed statement, which would be effective for financial statements for periods ending on or after Dec. 15, 1990, are due by Aug. 1.

The proposed SOP provides guidance for financial reporting of debt securities held as assets by financial institutions that use the historical cost basis of reporting investment assets, including banks, savings and loan associations, credit unions, and finance and insurance companies.

For a copy, write to the AICPA Order Department, P.O. Box 1003, New York, N.Y. 10108-1003. The first five copies are free.

---

## GASB Issues Three Statements

*New standards involve revenue-and-expense accounting, postemployment benefits, and leases.*

The Governmental Accounting Standards Board (GASB) issued three statements.

Statement 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*, is effective for periods beginning after June 15, 1994.

Statement 12, *Disclosure of Information on Postemployment Benefits Other Than Pension*

*Benefits by State and Local Governmental Employers*, is effective for fiscal years beginning after June 15, 1990.

Statement 13, *Accounting for Operating Leases With Scheduled Rent Increases*, is effective for leases with terms beginning after June 30, 1990, and allows retroactive application.

For copies, send \$5.50 for each statement requested to GASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, Conn. 06856-5116.

---

## Bill Would Curtail IRS Audits of Small Pension Plans

*Letters from CPAs help explain the need for new rules.*

Sen. Rudy Boschwitz (R-Minn.) introduced a bill, S. 2583, on May 7 that would require the IRS to adhere to its 1984 guidelines regarding the examination of small defined-benefit pension plans. Some two dozen CPAs, who sent letters explaining their experiences with IRS audits of

such plans, helped the AICPA illustrate the need for new rules regarding plan audits. The letters came in response to a request in *The CPA Letter* of April 19 asking CPAs to explain their experiences with IRS audits of defined-benefit plans for one to five people. Currently, IRS examiners are questioning any plan using an interest rate of less than 8% or a retirement age of less than 65.

---

### ***The CPA Letter Unveils a New Format***

With this issue, *The CPA Letter* introduces a new multi-column design that is easier to read and that spotlights important news for the membership. The new look will help those who want a quick glance at all the

highlights. For example, a summary line below the headline on each major news story summarizes the action involved. Also, standing columns have been established to help readers locate information quickly.

---

*The CPA Letter* (ISSN 0094-792x), June 8, 1990. Published semimonthly, except July and August, when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036-8775. Second-class postage paid at New York, N.Y., and at additional mailing offices. Copyright © 1990 American Institute of Certified Public Accountants, Inc. Postmaster: Send address changes to Circulation Department, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

Helene Kennedy  
Director—Communications and Public Relations

Joseph Burns  
Editor

# NOTICE TO PRACTITIONERS

## *Amendment Proposed to "Going Concern" Report*

This notice from the AICPA Auditing Standards Division describes a proposed amendment to SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, that the Auditing Standards Board (ASB) will consider at its June 1990 meeting. It also describes the views of the Securities and Exchange Commission (SEC) staff on this matter.

SAS 59 requires an auditor to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time not to exceed one year from the balance-sheet date. If, as a result of this evaluation, the auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern, paragraph 12 of SAS 59 requires the auditor to include an explanatory paragraph (following the opinion paragraph) in the report to reflect that conclusion.

Paragraph 13 of SAS 59 includes the following example of an explanatory paragraph that the auditor might add (following the opinion paragraph) to the report to express that conclusion:

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The ASB has observed explanatory paragraphs in which it is unclear whether the auditor is

expressing his or her conclusion that there is substantial doubt about the entity's ability to continue as a going concern. Upon the unanimous recommendation of the ASB's Audit Issues Task Force, which consists of 5 of the ASB's 18 members, the ASB will consider a proposed amendment to paragraph 12 of SAS 59 at its meeting June 12 to 14 in Washington, D.C. The recommended amendment would explicitly require use of the phrase "substantial doubt about the entity's ability to continue as a going concern" or similar wording that includes the terms "substantial doubt" and "going concern."

If the ASB approves the amendment, it will be included in an exposure draft of the *1990 Omnibus Statement on Auditing Standards*, which is expected to be published for comment in July.

The SEC staff has been following the ASB's consideration of this matter and has recently notified the ASB of its position, as follows:

"Regulation S-X, Article 2-02, requires the auditor to clearly state the opinion expressed on the financial statements. Statement on Auditing Standards No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, requires the auditor to conclude as to whether substantial doubt exists about an entity's ability to continue as a going concern. Accordingly, the staff's position is that when an auditor has concluded substantial doubt exists, an auditor's report should clearly convey that conclusion by using the words 'substantial doubt' and 'going concern' as illustrated in SAS No. 59. Thus, pending completion of the [Auditing Standards] Board's project, the staff will expect auditors' reports to clearly state their conclusions in a manner consistent with the preceding sentence."



---

## SPRING COUNCIL MEETING NEWS

### AICPA to Publish Names of Firms Dropped from Practice-Monitoring

The governing Council of the AICPA has authorized publication of the name of any firm dropped from the practice-monitoring program. Adopted at its meeting May 21 to 23, Council's implementing resolution provides: "That notice of termination of participation and the basis therefor of a member's firm in an Institute-approved practice-monitoring program shall be published in a membership periodical of the Institute, and the Quality Review Division shall maintain a record of such information and disclose that information upon request. Such notice shall be in a form approved by the chairman of the Trial Board and shall disclose the name of the firm involved."

### Williams Receives Outstanding Educator Award

- Council presented the 1990 AICPA Outstanding Accounting Educator award to Doyle Z. Williams. The KPMG Peat Marwick Professor of Accounting at the University of Southern California, Williams is the founding dean of USC's School of Accountancy and chairman of the American Accounting Association's Accounting Education Change Commission. He is also a member of the AICPA Board of Directors and the advisory boards for three schools of accounting.

### Other Council Highlights

In other highlights, Council:

- Was informed that Deputy Chairman B.Z.

Lee will be awarded the AICPA Gold Medal for Distinguished Service at the annual meeting in Baltimore Oct. 22 to 24;

- Heard a report from John Hegarty, secretary general of the *Federation des Experts Comptables Europeens*, the European accountants' association, who discussed the negotiations to ease international trade restrictions and made it clear that, among other things, there is a pressing need to eliminate artificial barriers against practicing accounting across national borders;
- Heard a report from Louis A. Craco of the law firm Willkie, Farr & Gallagher on the status of the lawsuit on the balloting for the Plan to Restructure. Craco said all but two of the original issues brought against the Institute have been dismissed by the court and that extensive Institute efforts to settle the case have not proved fruitful. If a trial should be necessary, it would probably not be for another year;
- Heard a status report from Lowell A. "Newt" Baker, chairman of the Governance and Structure Evaluation and Implementation Committee. Baker said the committee hopes to have its final recommendations for the Spring meeting of Council next year. An executive summary of the Report of the Special Committee on Governance and Structure will be included in the next issue of *The CPA Letter*.

---

## PUBLIC MEETING NOTICES

**The Quality Review Executive Committee** will meet at the Hyatt Regency Hotel in Milwaukee on June 11 from 10 a.m. to 5 p.m. and on June 12 from 10 a.m. to noon. The following items will be discussed: annual meeting of the Quality Review Committee chairmen; plans of the administration; update to the second edition of the *State Society Administrative Manual*.

**The Auditing Standards Board** will meet June 12 and 13 from 9 a.m. to 3 p.m. and June 14 from 9 to 11 a.m. at the General Accounting Office, 441 G St., NW, Washington, D.C. The following items will be considered: June 12, a.m. Negative assurance—discuss issues related to providing negative assurance based on agreed-upon procedures. June 12, p.m. 1990 Omnibus SAS—vote on amending SAS 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (see Notice to Practitioners, Page 3).

June 13, a.m. Service-center-produced records—discuss a proposed revision to SAS 44, *Special-Purpose Reports on Internal Accounting Control at Service Organizations*. June 13, p.m. Interim financial information—review proposed revisions to SAS 46, *Review of Interim Financial Information*. June 14 Audit sampling—review issues related to a proposed revision to the audit guide, *Audit Sampling*.

**The Accounting Standards Executive Committee** will meet June 14 at the AICPA, 1211 Avenue of the Americas in New York. The following items will be considered: a.m. Chairman's report; report on GAAP hierarchy study; discuss Practice Bulletin No. 3, *Prepayments into the Secondary Reserve of the FSLIC and Contingencies Related to Other Obligations of the FSLIC*. p.m. Discuss exposure draft of a proposed statement of position on foreclosed assets.

## MEETING HIGHLIGHTS

### Accounting Standards Executive Committee

At its meeting May 1 and 2, the Accounting Standards Executive Committee (AcSEC) agreed that the audit and accounting guide, *Common Interest Realty Associations*, should be issued in final form. However, AcSEC was informed of continued concern by the Financial Accounting Standards Board (FASB) about the guide's position on accounting for certain common property, and this concern still needs to be dealt with before the guide can be published.

AcSEC also approved for exposure a draft of the audit and accounting guide, *Audits of Employee Benefit Plans*.

### MAS Executive Committee

At its meeting May 7, the MAS Executive Committee agreed to recommend that its Litigation Services Task Force be made a standing subcommittee effective for the 1990-91 committee year.

### PFP Executive Committee

At its meeting May 3 and 4, the Personal Financial Planning Committee approved publication of a practice aid for the *PFP Manual* on guidance for PFP services that defines the PFP process and analyzes professional literature used for PFP.

## Deadline for Disability Coverage Is July 1

The deadline for obtaining or increasing coverage under the AICPA Long Term Disability Income plan is July 1. Available to eligible individual members, the Long Term Disability Income Plan offers the following features:

- Monthly disability income ranges from \$500 to \$5,000 for disabilities caused by either sickness or accident. As much as \$1,500 of monthly benefits is available regardless of earnings or other disability coverage in force.
- A liberal definition of total disability applies for the duration of the benefit period.
- Disability income benefits may be paid for life after a 26-week waiting period if disabled before age 50. Payments are made until the insured reaches age 65 if disabled at or over age 50.
- A voluntary rehabilitation program under which the insured may return to work while receiving monthly disability income in reduced amounts. The program also covers approved rehabilitation and education.

Any member who did not receive the recently mailed invitations and descriptive literature about the plan or who wants more information should write or call Rollins Burdick Hunter Co., 605 Third Ave., New York, N.Y. 10158, 800/221-4722; in New York call collect 212/973-6200 and ask for extension series 447.

## AICPA Disciplinary Actions

**Member Suspended**—At a meeting of a hearing panel of the Joint Trial Board in Irving, Texas, on March 20, 1990, Linda K. Harris of Fairfield, Texas, was found guilty of violating the Code of Professional Conduct of the AICPA and the Code of Professional Ethics of the Texas Society of CPAs in connection with an Oct. 31, 1985, governmental audit and was suspended from memberships in the Texas Society of CPAs and in the AICPA for two years.

In addition to the suspension, Ms. Harris is required to complete 80 hours of specified continuing professional education courses within two years and to submit to the Institute's Professional Ethics Division prior to 12 months and again prior to 24 months from the effective date of the decision an example of the highest level of audit, review or compilation performed during the period.

If the hearing panel's directives are not met, the suspension of memberships in the Texas Society of CPAs and in the AICPA will automatically become expulsions without further proceedings.

Ms. Harris was not present at the hearing but was advised in writing of the decision. She did not request a review and the decisions, therefore, became effective on April 20, 1990.

**Member Expelled**—The membership of Charles Toll of Bala-Cynwyd, Pa., was terminated on March 26, 1990, under the automatic disciplinary provisions of the Institute's bylaws following his conviction on his plea of guilty to conspiracy to defraud the United States out of money in connection with the assessment of taxes, bribery, income tax evasion, and mail fraud.

## ► *FASB Considers Amending Income Tax Statement*

The Financial Accounting Standards Board has tentatively decided to amend FASB Statement No. 96, *Accounting for Income Taxes*. Addressing an area that has been of considerable concern to practitioners, FASB said it may allow recognizing and measuring a deferred tax asset based on the likelihood of realization (subject to an impairment test) of a tax benefit in future years. As of late May, the board had not scheduled a meeting on the issue.

## ► *Oklahoma CPA Wins Small Business Award*

John G. Nelson, president of Nelson, Reams & Frazier Inc., accountants in Stillwater, Okla., was named the 1990 Small Business Accountant Advocate of the Year by the Small Business Administration (SBA). Chosen from among winners from each state, Nelson has helped many small businesses get started and expand. He has lobbied extensively on legislation affecting small businesses and has volunteered hours of professional accounting expertise to community agencies, the SBA said.

## ► *Exam Medalists Announced*

Elijah Watt Sells medals, awarded to those candidates who earned the highest scores among those who sat for all parts of the Uniform CPA Examination in November, will be presented at the AICPA's 1990 annual meeting in Baltimore Oct. 22 to 24.

- Donald S. Blair of Baltimore, a Magna Cum Laude graduate of the University of Maryland and an assistant accountant in the audit department for KPMG Peat Marwick in Baltimore, won the gold medal for the highest score.
- Nicholas R. Scarles of New York, who holds a master's degree in law from Trinity College, Cambridge University (England) and an LLM from the University of Virginia School of Law and who is an international tax manager with Price Waterhouse in New York, won the silver medal.
- Lewis S. Klessel of Cherry Hill, N.J., a Summa Cum Laude graduate of the Wharton School at the University of Pennsylvania and a staff accountant with Ernst & Young in New York, won the bronze medal.

## ► *Three States Raise Education Requirements*

Three more states have enacted laws requiring 150 hours of education for CPA candidates, bringing to 11 the number of states that have passed the 150-hour requirement. The three states are Kansas (effective in 1997), Kentucky (2000), and Mississippi (1995). Also, Utah, which has the 150-hour requirement in effect, amended its law to conform the language of its law to that recommended by the AICPA.

## ► *Five Universities Earn Accounting Grants*

The Accounting Education Change Commission issued grants totaling almost \$1 million to five universities. Organized last year by the American Accounting Association to promote improvements in accounting education, the commission is funded by the six largest accounting firms to stimulate innovation in accounting education. The grants went to:

- Brigham Young to learn what areas of competence are important for accounting graduates;
- Kansas State to revise the sequence of materials taught in accounting;
- The University of Massachusetts for three programs, one of which will link classrooms to a computer network containing a company's financial data;
- The University of North Texas to integrate accounting with liberal arts curriculum; and
- Rutgers to focus on MBA programs as preparation for accounting careers.

## ► *10,000 Members Get CPE Survey*

Some 10,000 randomly selected members from public practice, industry, and government will receive questionnaires this week and next designed to help the Institute and state CPA societies meet the CPE needs of individual members. Those who get surveys are asked to complete and return them promptly.

## ► *Correction*

The U.S. Department of Education's revised *Audit Guide* for the Student Financial Assistance Program is effective for the audit period ending June 30, 1990. The effective date was reported incorrectly in *The Letter* of May 11.

SOP 90-3, *Definition of the Term "Substantially the Same" for Holders of Debt Instruments as Used in Certain Audit Guides and a Statement of Position* (product number 014840) amends the industry audit guide, *Audits of Banks* and the audit and accounting guides, *Audits of Brokers and Dealers in Securities* and *Savings and Loan Associations*. Price: \$4.75; \$3.80 for members.

*Checklist of Emerging Issues Task Force (EITF) Consensuses* (008580). Price: \$20; \$16 for members.

*Employee Benefit Plans Industry Developments—1990* (022055), updates the audit and accounting guide, *Audits of Employee Benefit Plans*. Price: \$3; \$2.40 for members.

*Checklist Supplement for Oil and Gas Producers and Illustrative Financial Statements* (007975). Price: \$9.50; \$7.60 for members.

*Guide for Consideration of the Internal Control Structure in a Financial Statement Audit* (012450) is an audit guide to SAS 55 that illustrates two preliminary audit strategies and auditors' work papers for three hypothetical companies. Price: \$25; \$20 for members.

*Checklist for Defined Benefit Pension Plans and Illustrative Financial Statements* (008565). Price: \$16.50; \$13.20 for members.

*Getting Started Financially* (889489) is a brochure, and *The Journey to Financial Independence* (889474) is a 12-page, 20-minute speech on beginning a budget, establishing credit, examining leases, insuring and financing a car, and planning for retirement. Brochure price: \$12 per 100. Speech price: \$3.

Grammatik IV (029650) is a grammar and style checker designed for accountants. The software is for IBM PCs and compatibles and works with many word processors. It proofreads for errors in grammar, style, usage, punctuation, and spelling. It is available to AICPA members only for \$99.

## How to Order New Products

For products, write to the AICPA Order Department, P.O. Box 1003, New York, N.Y. 10108-1003, or call 800/334-6961 or 800/248-0445 in New York State and ask for Operator CPA 65. Prices do not include shipping and handling.

## New Version of Trial Balance Software Available

New software programs from the AICPA help prepare trial balances, financial statements, and consolidations.

Accountant's Trial Balance Version 2.1 makes it easy to prepare routine trial balances. By entering a company's financial data, ATB generates the reports and work papers accountants use daily. Two optional modules allow users to produce a range of financial statements, including cash flow, and to consolidate multiple companies into one entity. The modules are:

- ATB Financial Statements, which generates cash flow statements, balance sheets, and income statements directly from ATB data. Any change in an ATB trial balance will automatically be reflected throughout the financial statements; and
- ATB Consolidations, which can combine multiple companies into a single consolidated entity, even if the companies have dissimilar charts of accounts. When used with ATB Financial Statements, the module can generate complete consolidated statements.

The prices for AICPA members who are buying ATB for the first time are as follows: ATB 2.1 (product number 016340) \$316; ATB 2.1/Financial Statements (016380) \$476; ATB 2.1/Financial Statements/Consolidations (016390) \$636.

The prices for AICPA members who are current owners of ATB and want to upgrade to ATB version 2.1 are as follows: ATB version 2.1 Upgrade (016341) \$32; ATB 2.1/Financial Statements (016360) \$236; ATB 2.1/Financial Statements/Consolidations (016395) \$396. To upgrade, users must return the disk of version 1.0 or version 2.0 or the cover of the ATB manual.

## How to Order ATB Software

For products, write to the AICPA Order Department, P.O. Box 1003, New York, N.Y. 10108-1003, or call 800/334-6961 or 800/248-0445 in New York State and ask for Operator CPA 65. Prices do not include shipping and handling.

**IRS Proposes Pension Plan Regulations—**

The IRS has proposed non-discrimination rules regarding pension plan benefits and contributions, primarily involving IRC section 401(a)(4), which prohibits discrimination in favor of highly compensated employees. Designed to simplify the requirements for qualified plans, the proposed regulations will mean many plan sponsors will no longer need to make calculations based on employee data to decide whether plans satisfy the rules. The AICPA's Tax Division is preparing comments, which are due at the IRS by July 13. The IRS has scheduled a public hearing on the regulations for Sept. 26. Further details can be found in the *Federal Register*, May 14.

**Employment Tax Deposits Accelerated—**

Employers that have accumulated at least \$100,000 in withheld federal income and Social Security taxes must generally deposit the money earlier than they did in the past, the IRS said in Notice 90-37. The notice, which provides a varying deposit schedule through 1994, applies to amounts that must be deposited under the "eighth-monthly period" system, beginning after July 31. The new provisions will not apply to amounts due in August 1990 if the deposit periods end before Aug. 1. The new deposit requirement was mandated by the Omnibus Budget Reconciliation Act of 1989, which also revised the penalties for failure to make deposits. The new penalties range from 2% to 15%, depending on when a late deposit is made. Comments on the notice are due by July 20. For further details, see Notice 90-37 in Internal Revenue Bulletin 1990-21, May 21.

**Like-Kind Exchange Rules Proposed—The**

IRS has proposed two sets of regulations regarding like-kind exchanges of property under IRC section 1031. The rules proposed in the *Federal Register* of April 26 concern exchanges of personal property and multiple properties. The rules proposed in the *Federal Register* of May 16 concern limitations on deferred exchanges and the inapplicability of section 1031 to exchanges of partnership interests. Written comments on the regulations that were proposed April 26 are due by July 25; comments on the regulations proposed May 16 are due by July 27. The IRS will hold public hearings on the proposed regulations Sept. 5 and 6.

**New Format Unveiled for Forms W-2 and**

**W-3—**The IRS has changed Form W-2, *Wage and Tax Statement*, and Form W-3, *Transmittal of Income and Tax Statements*, for 1990 to make them easier to use. Both forms have new boxes, and some boxes have been renumbered and moved. Form W-2 is bigger to accommodate new boxes for information on such benefits as dependent care assistance. A new coding system allows reporting on such items as 401(k) contributions, the cost of group term life insurance for coverage over \$50,000, and uncollected Social Security tax on tips. New boxes on Form W-3 are for reporting on nonqualified plan distributions, dependent care benefits, Social Security wages and tips, and deferred compensation. The changes were reported in IRS Announcement 90-70 in Internal Revenue Bulletin 1990-20, May 14. For copies of the new forms, call the IRS, 800/424-3676.

---

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

# The CPA Letter

## A News Report to Members

---

### What's Inside

PCPS Alters Peer  
Review Timing 2

CPE Standards  
Being Revised 2

*Special Report:*  
Governance and  
Structure Committee  
Recommends  
Widespread Changes 3

AcSEC Withdraws  
FSLIC Practice Bulletin 7

Upcoming Conferences 7

Washington at a Glance 8

RICO Reform  
Bill Introduced 8

---

### Board to Expose Amendment to "Going Concern" Standard

*Auditors Would Be  
Required to Use  
Specific Wording in  
Their Reports*

The Auditing Standards Board (ASB) will expose an amendment to SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. If approved, the amendment would require auditors to use the specific words "substantial doubt" and "going concern"

when they have significant reservations about a company's ability to continue as a going concern. The staff of the Securities and Exchange Commission concurs with the move to amend the standard. (See "Notice to Practitioners," *The CPA Letter*, June 8.)

The amendment will be published next month in an exposure draft of the *1990 Omnibus Statement of Auditing Standards*.

### Rostenkowski Pledges Continued Support for Tax Simplicity

*Statement Comes in  
Response to 10,000  
Letters Protesting  
Tax Complexity*

Responding to complaints in more than 10,000 letters protesting tax-law complexity, House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) has pledged his continued support for simplifying the tax system.

In a letter to AICPA President Philip B. Chenok, Rostenkowski said he will hold hearings on the tax simplification proposals presented to the committee earlier this year, including 59 submitted by the AICPA.

The 10,000 letters of protest were sent to the AICPA after an April Ann Landers column on the complexity of the passive loss regulations (*The CPA Letter*, May 11). The column told readers who found the regulations incomprehensible to write to the AICPA. The responses were forwarded to the Ways and Means Committee.

Rostenkowski explained that simplification must not undermine the goal of eliminating excessive tax shelters.

"Simplification is not tax reduction by another name," he said, adding that efforts to reduce complexity must be revenue neutral.

### AICPA Says ERISA Enforcement Must Be Intensified

*Congress Is Told  
That New Penalties  
Are Not Needed*

The AICPA told the House Ways and Means Oversight Subcommittee that enforcement of the Employee Retirement Income Security Act (ERISA) must be improved. During a hearing on June 13, Arthur Hoffman, chairman of the AICPA Federal Taxation Executive Committee, said new penalties are not needed to enforce ERISA compliance. Providing adequate funding to the U.S. Department of Labor (DOL) would help ensure vigorous ERISA enforcement, Hoffman maintained.

David M. Walker, a member of the AICPA's Employee Benefit Plans Committee, testified that audits of the financial statements of ERISA plans are conducted in accordance with generally accepted auditing standards, and that such audits are not designed to provide assurance that all legislative and regulatory requirements have been met.

If Congress wants to expand the scope of the auditor's work, the AICPA would work with Congress and the DOL to achieve their objectives. However, Congress and the DOL must explicitly state what is to be required.

---

### ► ***PCPS Revises Peer Review Timing***

The AICPA's Private Companies Practice Section (PCPS) has modified its peer review timing requirements for new members of the section, effective July 1.

Generally, the peer review of an unreviewed firm joining the section must begin within 18 months. Now, however, if the firm has already been assigned an earlier peer review or quality review (QR) due date, the earlier date will continue in effect. An unreviewed firm has 24 months to start its peer review instead of 18 if: it had a consulting review within six months before joining PCPS; it has a consulting review within six months after joining PCPS; or it has already had a QR.

In addition, a new PCPS member that has had a QR has another alternative. If it submits the QR documents for inclusion in the PCPS public files and meets certain other conditions, the firm may elect to have the QR treated as the equivalent of a PCPS peer review. This means that the peer review need not start until about three years after the QR.

### ► ***CPE Standards Being Revised***

The AICPA's CPE Division has issued an exposure draft, *Proposed Statement on Standards for Formal Continuing Professional Education (CPE) Programs*. The exposure draft proposes revisions in the standards for CPE program development, presentation, measurement, and reporting. Comments on the proposal are due by Aug. 31. For a copy of the exposure draft, write to the AICPA Order Department, P.O. Box 1003, New York, N.Y. 10108-1003. Ask for product number G00576.

### ► ***CPAs Named to Emerging Markets Committee***

J. Michael Cook, chairman and chief executive officer of Deloitte & Touche and a past chairman of the AICPA Board of Directors, and Shaun F. O'Malley, chairman and senior partner of Price Waterhouse, were named to the SEC's new Emerging Markets Advisory Committee. The SEC formed the committee to respond to requests for help from newly formed securities regulatory organizations and exchanges, primarily in Eastern Europe.

### ► ***GAO Seeks Accounting Fellows***

Applications for the General Accounting Office's (GAO) accounting fellowship program are being accepted through July 31. Assignments will involve consultation on the GAO's response to congressional requests concerning key national issues and the accounting profession. Specialists are needed in such areas as auditing and computer con-

sulting and in such industries as finance, securities, and insurance. Governmental accounting experience is not required. For information, write to Lisa Jacobson, Office of the Assistant Comptroller General—AFMD, 441 G St., N.W., Washington, D.C. 20548, or call 202/275-1979.

### ► ***Inter-American Accounting Group Open to AICPA Members***

Any CPA interested in Latin America and fluent in Spanish or Portuguese is invited to join the AICPA delegation to the Inter-American Accounting Association (IAA) by becoming an IAA associate member. The 20th Regional Inter-American Accounting Seminar will be held in Montevideo, Uruguay, July 19 and 20. Its theme will be "Governmental Financial Management: The Challenge of Efficiency." The 21st Inter-American Accounting Conference will be held in Buenos Aires in October 1991. For more information, write to James P. Wesberry Jr., chairman, AICPA Delegation to Inter-American Accounting Association, 4004 Franconia Road, Alexandria, Va. 22310-2136 or call 202/647-0233.

### ► ***Wanted: Accountants With International Trade Experience***

The International Trade Administration of the U.S. Department of Commerce is seeking accountants with experience in international finance, generally accepted accounting principles, and auditing functions related to anti-dumping and countervailing duty trade laws. This job requires U.S. citizenship. International travel would also be required. An accounting degree and CPA designation are preferred. An MBA with experience auditing international clients for a CPA firm is also desirable. The salary range is \$35,825 to \$46,571. To apply, send Form 171 to the U.S. Department of Commerce, ITA/Office of Personnel, Vacancy Number 90-110, Attention Carol Wade, Room 4808, Washington, D.C. 20230.

### ► ***SEC Sponsors Forums on Small Business Capital***

The SEC Government-Business Forum on Small Business Capital Formation offers small business owners, advocates, academics, government officials, venture capitalists, and trade association representatives a chance to express their concerns about governmental barriers to raising capital. The forums will be held Sept. 13 in Seattle and Sept. 17 in Atlanta. The registration fee is \$75. For information, write to the SEC, Office of Small Business Policy, 450 5th St., N.W., Suite 7201, Washington, D.C. 20549, or call 202/272-2644.

The CPA Letter (ISSN 0094-792x), June 29, 1990. Published semimonthly, except July and August, when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036-8775. Second-class postage paid at New York, N.Y., and at additional mailing offices. Copyright © 1990 American Institute of Certified Public Accountants, Inc. Postmaster: Send

address changes to Circulation Department, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

**Helene Kennedy**  
Director—Communications and Public Relations

**Joseph Burns**  
Editor

## Governance and Structure Committee Suggests Widespread Changes

**■ Recommendations include the roles and responsibilities of members, the governing Council and the Board of Directors, the committee structure, self-regulation, attracting and retaining highly qualified professionals, uniform licensing and coordinated practice monitoring, and the Institute's working relationship with the state societies.**

The AICPA's Special Committee on Governance and Structure is proposing widespread changes to the Institute's organization and operation. In a report issued this month, the committee said that its challenge was "to make sure the Institute is structured to respond appropriately and quickly" to the recent significant changes in the profession. Established by the Board of Directors in 1987, the committee was charged with suggesting ways the AICPA could better meet the expectations of Institute members and the public.

The committee's report makes more than 40 recommendations involving virtually every aspect of the organization, including suggestions to:

- Establish a Management Accounting Division for members in industry and CPAs who consult to businesses;
- Formalize and restructure how the Institute represents the interests of members in public practice and industry;
- Enhance the AICPA's committee structure;
- Improve the Institute's self-regulatory function;
- Involve non-CPA professionals who work for CPA firms as affiliates of member sections—but not as Institute members or as associates of the AICPA itself;
- Encourage uniform certification and licensing standards for CPAs;
- Change the composition of the Board of Directors and expand the size of the Board of Directors and the governing Council;
- Improve accounting education; and
- Enhance the working relationship between the AICPA and the state societies.

Committee members were chosen from industry, education, and government, and from small, medium-sized and large CPA firms. Chaired by Rholan E. Larson, a past chairman of the Board of Directors of the AICPA, the committee considered the opinions of numerous groups from both inside and outside the profession in formulating its recommendations. The committee set four goals:

- 1) To enhance the Institute's ability to lead the profession;
- 2) To ensure that the Institute represents all segments of the profession;
- 3) To improve the effectiveness of its self-regulatory activities; and

- 4) To ensure that the Institute has a cost-effective organizational structure.

Although the committee found that the Institute is generally functioning effectively, it suggested ways to create an even more effective operation and, at the same time, conserve Institute resources. As might be expected, many issues raised in the report are controversial, and the report includes the reservations of a few committee members on three issues concerning the Private Companies Practice Section (PCPS) and the peer review process. Nevertheless, "a substantial majority of the committee concurred with every recommendation," the report said.

The committee's significant recommendations are highlighted and, where appropriate, brief explanations have been taken from the committee's report.

### MANAGEMENT ACCOUNTING

**Create a Management Accounting Division with an executive committee and appropriate Institute staff.**

The new Management Accounting Division would be a technical division and would:

- Evaluate management accounting concepts and practices;
- Provide educational and guidance materials to improve management accounting;
- Implement communications programs to inform management, educators, and other CPAs about changing concepts and practices in management accounting; and
- Serve as the Institute's liaison with the Cost Accounting Standards Board.

### MEMBERS IN INDUSTRY

**Create a Members in Industry Executive Committee to meet these members' needs and represent their views.**

The executive committee would:

- Recommend how AICPA resources can be used more

*Continued on next page*



## ***Governance and Structure Recommendations (continued)***

effectively to strengthen the skills of CPAs in industry;

- Communicate to the general public, employers, and others about the benefits of having CPAs in business management;
- Interact with the Management Accounting Executive Committee;
- Determine the future needs of CPAs in business management; and
- Develop data on professional issues from the viewpoint of CPAs in industry.

### **MEDIUM-SIZED AND SMALL FIRMS**

**The Private Companies Practice Section Executive Committee should continue its present responsibilities for member firms and expand its role to represent, act as an advocate for, and provide services to all medium-sized and small firms. Because of its expanded responsibilities, it should be renamed the Public Practice Executive Committee.**

One of the largest tasks before the committee was deciding what recommendations would help the Institute provide the best organization for medium-sized and small firms. About 100,000 of the 128,000 members in public practice work for such firms. The Governance and Structure Committee focused primarily on the present role of PCPS and the Management of an Accounting Practice (MAP) Committee.

**The PCPS member-firm organization should continue and should be administered by the Public Practice Executive Committee. Its name should be changed to the Section for Firms.**

**The Public Practice Executive Committee (PPEC) should provide practice-management services through the MAP Committee for all medium-sized and small firms. PPEC should also represent those firms' interests on professional issues, primarily through the Technical Issues Committee and a newly created Practice-Monitoring Liaison Committee.**

The MAP Committee functions effectively, and its role and activities should not be changed, the report said. PPEC, however, could also give the MAP Committee direction and support and represent all medium-sized and small firms before senior technical committees and standard-setting bodies. As part of PPEC, a new Practice-

Monitoring Liaison Committee would be established to communicate the views of medium-sized and small firms to the Institute's practice-monitoring committees.

The Governance and Structure Committee recognized that the PCPS is an effective advocate for its members, primarily small and medium-sized firms. It also recognized that any obstacles preventing firms from joining the section should be removed, wherever possible. Some 32,000 Institute members work for the 5,700 firms that had joined PCPS at the time the report was completed. (The number is now approximately 6,200 firms.) Yet, about 66,000 AICPA members work for the 40,000 firms that are not represented. Changing the name of PCPS to the Section for Firms should remove one obstacle to joining, said the report. The section would be administered by PPEC.

### **COMMITTEE STRUCTURE**

**Technical divisions should, where appropriate, set technical standards and provide other technical guidance, consult with the Specialization Accreditation Board and provide membership activities in a specific technical area. At least one executive committee should oversee the activities of each technical division.**

The Governance and Structure Committee recommended that the Institute's committee structure be grouped by technical divisions, self-regulatory bodies (such as practice-monitoring and ethics), member groups based on occupation, and other professional and member services.

The committee also recommended that technical divisions exist for at least the following areas:

- Auditing (which now includes accounting and review services);
- Financial accounting;
- Taxation;
- Personal financial planning;
- Management accounting (the new technical division); and
- Management advisory services.

### **SELF-REGULATORY FUNCTION**

**The SEC Practice Section Executive Committee should be designated a senior technical committee, appropriately staffed, and given the authority to make public statements.**

This recommendation was made because the committee recognized that the SECPS makes a special and highly visible contribution to improving the quality of practice

among CPA firms with SEC clients. The section is also unique within the Institute in that it has a Public Oversight Board, a Quality Control Inquiry Committee, and is subject to SEC oversight.

**In the future, combine the PCPS peer review program with the Quality Review Program when the Quality Review Program has been effectively implemented. After the two programs are combined, the need for the Division for CPA Firms as a separate structure would no longer exist, since the SECPS would then be the only remaining component of the division.**

The Institute has three practice-monitoring programs, and three executive committees oversee them: the PCPS, SECPS, and Quality Review executive committees. Both PCPS peer reviews and quality reviews are designed for medium-sized and small firms whose clients are privately held. Their reviews are similar in many respects. Having two practice-monitoring programs that serve similar functions is an unnecessary duplication of effort, the report said.

#### INVOLVING NON-CPA PROFESSIONALS

**Permit non-CPA professionals who work for CPA firms to join the member sections of the Institute's technical divisions as "section associates."**

Some of the reasons for this recommendation are that non-CPA professionals who work for CPA firms are expected to adhere to the AICPA's Code of Professional Conduct and those whose firms are in the SEC or Private companies practice sections must meet specific CPE requirements, but:

- They have no direct link to the AICPA, and thus no personal commitment to it;
- They do not directly receive information about AICPA publications, conferences, or CPE courses; and
- They cannot serve on Institute committees (except as consultants).

Two disadvantages of allowing non-CPA professionals to affiliate with the Institute are:

- Doing so could have an adverse effect on the Institute's image as the professional association of CPAs; and
- CPA firms may have to bear an additional cost for non-CPA membership dues.

The committee recommended that non-CPA professionals working for firms enrolled in one of the Institute's practice-monitoring programs be permitted to join only

the membership sections of technical divisions as section associates. As such, they could participate in all section activities and may be required to meet the Institute's CPE requirements and adhere to the code of conduct. Their application for section affiliation should be supported by an Institute member who is a partner in the CPA firm. Upon separation from the CPA firm, a non-CPA professional would no longer be eligible to be a section associate.

#### OTHER RECOMMENDATIONS

Some of the other recommendations of the Governance and Structure Committee are the following:

**Increase the size of the governing Council from 260 to 342 to enable each state society president and president-elect, plus at least one other member, to serve on Council for at least a two-year term, without significantly changing the proportional representation of each state.**

**The Council should retain its overall governance authority and continue to serve as a consensus-building body.**

**The Board of Directors should monitor more actively the activities and processes of all Institute committees by creating a Committee on Committee Operations. This committee should recommend to the board whether new committees should be created and whether existing ones should be terminated or merged.**

**Increase the number of board members from 21 to 23. Eighteen board members should be elected for three-year terms.**

**Rename the Federal Taxation Division as the Tax Division and expand its responsibilities to reflect its broad coverage of international, state, and local taxes.**

**Reassess how the Auditing Standards Board and the Accounting Standards Executive Committee identify emerging issues and how they develop the corresponding accounting and auditing guidance. Improve the process, if necessary, to ensure prompt responses.**

*Continued on next page*

---

## *Governance and Structure Recommendations (continued)*

**Rename the Relations with State Societies Executive Committee as the AICPA/State Society Coordinating Committee and expand its activities to improve the working relationship between the Institute and the state societies.**

**Create a joint AICPA/NASBA permanent liaison committee to discuss ways to achieve uniformity of licensing and regulation.**

**Create a national qualifications service to set and administer qualifications for licensing of CPAs by state accountancy boards.**

**Encourage all state boards of accountancy that have positive enforcement programs to accept enrollment by firms in any AICPA-approved practice-monitoring program as meeting their requirements.**

**Appoint a committee to study the accounting accreditation standards of the American Assembly of Collegiate Schools of Business and the accreditation process itself.**

### **THE NEXT STEP**

The report was distributed to all AICPA committee members, including members of Council; the state society boards of directors and executive directors; NASBA board of directors and executive director; state boards of accountancy members and administrators; chief volunteer and staff officers of the Financial Executives Institute, the National Association of Accountants, the Institute of Internal Auditors, and the American Accounting Association; executive directors of associations for CPA firms; and selected media members. Members wanting to receive a free copy of the *Report of the Special Committee on Governance and Structure* should write to the AICPA Order Department, P.O. Box 1003, New York, N.Y. 10108-1003 and ask for product number G00393.

The AICPA's Board of Directors has appointed the Governance and Structure Evaluation and Implementation Committee to evaluate the recommendations and any comments it receives on those recommendations, and suggest an appropriate program of implementation. Chaired by Lowell A. "Newt" Baker, a member of the Board of Directors, the committee plans to complete its assignment at next year's spring meeting of Council.

### **COMMENT PERIOD**

Individuals wanting to comment on the report should write to Lowell A. Baker, chairman, Governance and Structure Evaluation and Implementation Committee, 1211 Avenue of the Americas, New York, N.Y. 10036-8775 by Sept. 4, 1990.

Balance Sheet

ASSETS		
Cash and Equivalents	1,000	15,727
Accounts Receivable	14,500	23,127
	3,761	41,697
Inventory	1,500	57,455
Current Assets	20,761	130,006

130 Prepaid Insurance	Prepaid Expenses
131 Prepaid Rent	Prepaid Expenses
132 Prepaid Interest	Prepaid Expenses
140 Supplies Inventory	Supplies Inventory
200 Land	Land
210 Buildings	Buildings
215 Accum. Dep. - Buildin	Less accumulated depreciation

F1-Help F2-Account range F5-Assign F6-Unassign F7-Next line F10-Accept

# Accountant's Trial Balance 2.1

*Designed especially for the accounting professional, Accountant's Trial Balance has great advantages. . . Your work will no longer be a time-consuming chore, and you have more speed and functions than ever before at your disposal.*

The perfect tool for attacking compilations, reviews, audits and financial statements, ATB has so many great components that your work is *simplified*. Once you enter your balance, transactions and adjusting entries, you are no longer bound to time-consuming manual computations or calculation errors. So easy to learn and so easy to use, you'll be using ATB in no time and enjoying all it has to offer:

- Screen looks and feels like a columnar workpaper
- Windows display current net profit or loss separately and the chart of accounts with all current account balances
- Full detail viewing *without* ever leaving your journal entry input screen
- Accounts can be added at any time during the process
- All the calculations are done automatically by the computer
- Change from GAAP to tax basis to cash basis with a keystroke
- Analytical procedure capabilities in addition to the regular trial balances features
- Menu-driven format allows you to make changes and print out adjusted trial balances along with lead schedules and user-defined account grouping schedules, as needed

- Full range of analytical procedure workpapers enables you to compare results of up to 34 ratios to the prior period, budget or to user-entered industry averages
- Tutorial and user's manual for easy reference
- And much more!

ATB guarantees a broad range of essential reports and workpapers that you require every day, including:

- Trial Balance and Working Trial Balance (several formats)
- General Ledger Listing
- Lead Schedules
- Chart of Accounts Listing
- Journals
- Analytical Procedure Workpapers
- Tax Journal Entries
- Proposed Journal Entries
- Adjusting Journal Entries
- Potential Journal Entries and Analysis
- Reclassifying Journal Entries
- User-Definable Grouping Schedules.

## Now, Cash Flows and So Much More!

**ATB Financial Statements**, when used in conjunction with ATB 2.1, helps you create a complete set of financial statements for any ATB 2.1 trial balance, whether from scratch or automatically from ATB's user-definable schedules, lead schedules or chart of accounts. These statements can be completely customized to suit your needs. ATB Financial Statements is completely

integrated with ATB so you only make an entry once—any changes in an ATB trial balance are immediately reflected in the financial statements. The need to make correcting entries throughout your statements are eliminated. You can create a supporting schedule that lists the account and amounts that are included on that line. ATB Financial Statements' powerful combination of wordprocessing-like and spreadsheet-like capabilities adds enormous flexibility to the format your documents can take.

## Now, Integrate Data from Several Related Companies Into One Financial Picture.

**ATB Consolidations** makes it easy to combine financial data from related companies or non-profit institutions with many different funds into one, single entity, even when they don't have similar charts of accounts. You can create a consolidated ATB company that contains up to nine individual companies. In fact, this consolidated company can itself be consolidated—so the number of companies that can be put together is virtually unlimited. Your consolidated company is always kept current . . . the program automatically keeps track of the activity and alerts you so that you can choose

to reconsolidate when the underlying trial balances change.

ATB Consolidations integrates easily with ATB 2.1 and ATB Financial Statements, so all of the regular features of ATB, such as analytical procedures, user-defined schedules and period end closes are available to you. Consolidated financial statements may be prepared using the ATB Financial Statements module. Any basis of accounting may be used for the companies that are to be consolidated, using GAAP, tax, cash, etc.

### System Requirements

IBM PC, XT, AT, PS/2 or 100% IBM-compatible system • 640K RAM • One diskette drive and a hard drive • DOS Version 3.1 or higher • Printer capability of at least 132 characters per line

**NOTE:** Each edition of the Accountant's Trial Balance 2.1 will include diskettes in both 5¼" and 3½" formats.

Firm licenses are priced at \$300 and up.

Call Software Support at **212-575-5412** for more information.

**Order Toll-Free By Phone**  
**1-800-334-6961**  
**(In New York State**  
**1-800-248-0445)**  
**Ask For Operator CPA 618**

When ordering by phone, be prepared to give operator your member number, product number, MasterCard or VISA number and expiration date.

### Shipping and handling

\$25.01-\$50.00: \$4.95  
 \$50.01-\$150.00: \$5.95  
 Over \$150.00: 4% of total

Add 8.25% sales tax in New York City. Elsewhere in New York State add 4% state tax plus local tax if applicable. In Washington, DC, add 6% tax and in Vermont add 4% state tax.

## SPECIAL COMBINATION OFFER

These special combination AICPA member prices are only available if ordered at the same time and addressed to the same recipient.

	<b>ATB Owners 1.0 2.0 Only*</b>	<b>NEW Orders</b>
<b>ATB 2.1</b>	<b>\$ 32 (016341)</b>	<b>\$316 (016340)</b>
<b>Financial Statements (includes ATB 2.1)</b>	<b>\$236 (016360)</b>	<b>\$476 (016365)</b>
<b>Consolidations (includes ATB 2.1)</b>	<b>\$236 (016375)</b>	<b>\$476 (016380)</b>
<b>Financial Statements and Consolidations (includes ATB 2.1)</b>	<b>\$396 (016395)</b>	<b>\$636 (016390)</b>

\*To get these prices, you must enclose disk of ATB version 1.0 or 2.0 or ATB manual cover. The new material you will receive includes ATB version 2.1.

## ORDER FORM

**CPA 618**

American Institute of CPAs, Order Department  
 P.O. Box 1003, New York, NY 10108-1003

Member No. \_\_\_\_\_

Name \_\_\_\_\_

Firm \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_

State \_\_\_\_\_

ZIP \_\_\_\_\_

Please send the following at the AICPA member discount shown.

### NEW BUYERS

\_\_\_\_\_ ATB 2.1 016340 @ \$316 \$ \_\_\_\_\_  
 \_\_\_\_\_ ATB 2.1 Financial Statements (includes ATB 2.1)  
 016365 @ \$476 \$ \_\_\_\_\_  
 \_\_\_\_\_ ATB 2.1 Consolidations (includes ATB 2.1)  
 016380 @ \$476 \$ \_\_\_\_\_  
 \_\_\_\_\_ Financial Statements and Consolidations  
 (includes ATB 2.1) 016390 @ \$636 \$ \_\_\_\_\_

### Current Owners

\_\_\_\_\_ ATB 2.1 Upgrade 016341 @ \$32 \$ \_\_\_\_\_  
 \_\_\_\_\_ ATB Financial Statements (includes ATB 2.1)  
 016360 @ \$236 \$ \_\_\_\_\_  
 \_\_\_\_\_ ATB Consolidations (includes ATB 2.1)  
 016375 @ \$236 \$ \_\_\_\_\_  
 \_\_\_\_\_ Financial Statements and Consolidations  
 (includes ATB 2.1) 016395 @ \$396 \$ \_\_\_\_\_

Shipping and handling\* \_\_\_\_\_

Sales tax (if applicable) \_\_\_\_\_

Total \_\_\_\_\_

### Payment Method

☐ Check enclosed ☐ Bill Me ☐ MasterCard ☐ VISA

Card Account Number \_\_\_\_\_ Expiration Date \_\_\_\_\_

Signature \_\_\_\_\_

---

## Reminder: New CPE Requirements in Effect This Year

**Education Rules Affect All Members** Here's a reminder from the CPE Division: Effective this year, *all members* (except retirees) must

meet minimum continuing professional education requirements to continue their AICPA memberships. Beginning this year, the new requirements apply as follows:

■ **Members not in public practice** must complete 60 hours of CPE during the first three-year reporting period, including a *minimum* of 10 hours each year.

■ **Members in public practice** must complete 120 hours of CPE for each three-year reporting period, including a *minimum* of 20 hours each year.

For answers to questions about the new requirements, write to Michele Thomas, technical adviser, CPE Division, AICPA, 1211 Avenue of the Americas, New York,

N.Y. 10036-8775. Or, if you would like a copy of the brochure, *Policies for CPE Membership Requirement*, which was mailed with the February *Journal of Accountancy*, write to the AICPA Order Department, P.O. Box 1003, New York, N.Y. 10108-1003. Ask for product number G00560. The first five copies are free.

## Notice to Practitioners

**AcSEC Withdraws FSLIC Practice Bulletin** At a meeting on June 14, 1990, the Accounting Standards Executive Committee voted to withdraw

AICPA Practice Bulletin No. 3, *Prepayments into the Secondary Reserve of the FSLIC and Contingencies Related to Other Obligations of the FSLIC*, because it is no longer applicable in the light of current facts and circumstances.

---

## U P C O M I N G C O N F E R E N C E S

---

**The National Accounting and Auditing Advanced Technical Symposium** is for practitioners with at least eight years of experience who are seeking advanced technical training. Top speakers from the profession, and the FASB, GASB and ASB will explain the latest developments in accounting and auditing. Information about peer and quality reviews will also be offered. Date and location: July 9 and 10, Boston. Registration: \$495. Recommended CPE credit: 16 hours.

**The National Tax Education Program** is for tax practitioners seeking practice-oriented instruction. The program offers five one-week sessions designed to build tax knowledge and offer planning insights. Two advanced sessions and an update are offered in July at the University of Illinois in Urbana-Champaign. Dates and sessions: July 9 to 13, Week 3, Advanced; July 16 to 20, Week 4, Advanced; July 23 to 27, Week 5, Update. Registration: Varies. Recommended CPE credit: 40 hours per week.

**The CPA's Role in Litigation Services** is for CPAs seeking to enhance their litigation-practice strategies. It offers sessions on how to value businesses and professional practices, information on construction litigation, and business insurance claims. Dates and locations: July 12 and 13, Dallas; Sept. 6 and 7, Washington, D.C. Registration: \$495. Recommended CPE credit: 16 hours.

**The Advanced Estate Planning Conference** is for CPAs seeking to refresh the skills needed in estate planning and

provides information on applicable new legislation, court decisions and rulings. It offers sessions on minimizing estate taxes, pre- and post-nuptial agreements, and unwinding reverse freezes. Date and location: July 25 to 27, Toronto. Registration: \$695. Recommended CPE credit: 24 hours.

**The OMB Circular A-133 Conference** is for practitioners and federal, state, local and other officials involved in audits of not-for-profit entities. The conference will focus on the audit and administrative requirements of Circular A-133 from the federal Office of Management and Budget, why it was issued and how to follow it in conducting audits. Dates and locations: Aug. 1, Washington, D.C.; Aug. 6, Atlanta; Aug. 8, St. Louis; Aug. 17, San Francisco; Sept. 11, New York. Registration: \$255. Recommended CPE credit: 8 hours.

**The Governmental Accounting and Auditing Update Conference** is for practitioners, senior financial officers or government officials dealing with accounting and auditing problems in federal, state, and local governments, and for those at not-for-profit institutions receiving federal assistance. The conference will focus on new pronouncements and emerging developments, including Circular A-133. Dates and locations: Aug. 9 and 10, Washington, D.C.; Dec. 6 and 7, San Francisco. Registration: \$375. Recommended CPE credit: 16 hours.

**For conference registration and information**, call 800/242-7269, or 212/575-5696 in New York State.



**House Introduces New Approach to RICO Reform**

Congressman William Hughes (D-N.J.) has introduced the RICO

Improvement Act of 1990 to streamline and reform the federal Racketeering Influenced and Corrupt Organizations (RICO) Act. "I'm very concerned about the proliferation of civil RICO cases which involve types of conduct that are not ordinarily thought of as racketeering or organized crime," said Hughes in introducing the bill, H.R. 5111. "Our bill seeks to curb most of the abuses of RICO, while still maintaining civil RICO as a useful tool to combat criminal activity."

Major provisions of H.R. 5111 include:

- Tightening the definition of "pattern of racketeering" and codifying concepts contained in recent Supreme Court rulings;
- Limiting civil actions under RICO to cases involving "egregious criminal conduct" by establishing a "gatekeeper" provision that allows the court to dismiss suits that do not meet that standard;
- Limiting civil RICO jurisdiction exclusively to federal courts and affirming that activities protected by the First Amendment cannot be the basis for any RICO action;
- Setting a "clear and convincing" standard of proof for civil RICO; and
- Giving judges the discretion to reduce monetary awards in currently pending RICO cases, which, if filed under the new standards established in the bill, may have been dismissed.

Introduced on June 21, H.R. 5111 is cosponsored by Rick Boucher (D-Va.), Bill McCollum (R-Fla.), Ramono Mazzoli (D-Ky.), Ed Feighan (D-Ohio), Larry Smith (D-Fla.), George Gekas (R-Pa.), and Mike DeWine (R-Ohio).

"H.R. 5111 is significantly different in concept from the existing RICO reform bill in the U.S. Senate (S.438)," commented B.Z. Lee, AICPA deputy chairman-federal affairs. "However, it would substantially improve the abusive nature of the current RICO law, which is often used against legitimate businesses, including CPAs. H.R.

5111 is a legislative approach to RICO reform the AICPA wholeheartedly supports."

The Congress will be in recess from July 2 to 9. AICPA members should encourage their Congressmen to support passage of H.R. 5111 this year. For further information, write to J. Thomas Higginbotham, vice president-legislation, AICPA, 1455 Pennsylvania Ave., Washington, D.C. 20004-1007, or call 202/737-6600.

**SEC Issues New Reporting Requirements for Employee Benefit Plans**

The SEC recently amended the requirements for Forms S-8 and 11-K regarding employee

benefit plans. The amendments streamline Form S-8 registration procedures and amend Form 11-K to eliminate the requirement for an annual description of the plan. The revised rules specify that in lieu of the financial statement requirements of Form 11-K, employee benefit plans subject to ERISA must furnish only those financial statements and schedules required under ERISA regulations. The "limited-scope" audit exemption permitted under ERISA will not be available. The amendments are effective July 13. For details, see the *Federal Register*, June 13.

**SEC Seeks Comment on Foreign Tender Offers Plan**

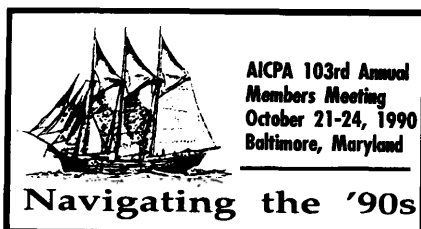
The SEC is seeking comments on a plan designed to encourage foreign bidders to extend

multinational tender and exchange offers to their security holders in the United States under certain circumstances. "One of the most significant barriers to inclusion of U.S. security holders in an offshore exchange offer has been the need for adherence to, or reconciliation with GAAP and auditing standards," the SEC said. Under the SEC's plan, bidders could use foreign disclosure, procedural, and accounting requirements when extending offers to U.S. investors who own a small percentage of the securities sought. Comments are due by Sept. 21. For details, see the *Federal Register*, June 12.

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.



# The CPA Letter

## A News Report to Members

---

### What's Inside

Bill Would Create  
Federal CFO 2

---

Firms Seek  
Graduates with  
Advanced Degrees 2

---

Louisiana Raises  
Education Requirement 3

---

Quality Review,  
Peer Review  
Scheduling Notice 4

---

AICPA to Testify on  
Expanding Auditors'  
Responsibilities 8

---

New 1990 Tax  
Forms Released 8

---

---

### Rimerman to Act As Chairman of AICPA Board

**Kaiser resigns.** Thomas W. Rimerman, CPA, managing partner of Frank, Rimerman & Co., Menlo Park, Calif., has been designated by the AICPA Board of Directors to act as chairman of the board. Rimerman, current vice-chairman, and a former president of the California Society of CPAs, will formally assume the chairmanship at the time of the Institute's annual meeting in October 1990. His early designation arose during the board's meeting July 12 and 13 from the unanticipated resignation of Charles Kaiser, Jr. as chairman of the board.

In submitting his resignation, Kaiser said that although his service to the AICPA was the most fulfilling experience of his professional career, other commitments have become so compelling that he did not believe he could continue to do justice to the position. In accepting the resignation with regret, the board acknowledged Kaiser's years of service, dedication, and commitment to the Institute and the profession.

In other actions, the board:

- Received a report that the Federal Trade Commission had voted to modify the Proposed Order approved by Council in settlement of the FTC investigation into the Rules of Conduct.

The modification would give the AICPA the added authority to prohibit members from accepting contingent fees for preparing original or amended tax returns or claims for refunds. The board has notified the FTC of its acceptance of the change, and issuance of a Final Order is expected.

- Voted to recommend that Council authorize a mail ballot of the membership to amend Rule 505 so as to make it possible for CPAs to practice in limited liability corporations.

- Received a report from the Governance and Structure Evaluation and Implementation Committee.

- Authorized the Professional Ethics Division to discuss a proposal for AICPA involvement with the investigation of complaints filed with the Texas State Board of Public Accountancy.

- Discussed a proposal from the MAS Executive Committee to restructure the current MAS standards as "CPA Consulting Practice Standards." The effort is designed to respond to the many new services being offered by CPA firms that may not come under existing standards. The board urged that there be a comprehensive dialogue between the MAS and Tax Executive Committees as the project goes forward.

---

### AICPA Opposes Boucher's Investment Adviser Bill

*Institute says new rules should be aimed at those who defraud the public.*

The AICPA opposed proposed modifications to the Investment Advisers Act of 1940 contained in H.R. 4441, saying any new regulation of investment advisers should be directed at those persons who abuse or defraud the public.

William J. Goldberg, chairman of the AICPA's Personal Financial Planning Legislation and Regulation Subcommittee, said CPAs generally do not engage in the types of activities

that are most likely to lead to fraud and abuse. Testifying before the House Energy and Commerce Subcommittee on Telecommunications and Finance on July 18, Goldberg explained that such activities include accepting commissions from the sale of securities, holding clients' funds and securities for investment, and recommending or selling securities to clients.

H.R. 4441, introduced by Rep. Rick Boucher (D-Va.), "throws a wide net over an overly large array of individuals and services," Goldberg said.

---



---

## Senator Glenn Introduces Bill to Create Federal CFO

Sen. John Glenn (D-Ohio) has introduced the Federal Financial Management Improvement Act of 1990, which would establish a position for a chief financial officer in the federal Office of Management and Budget.

Introduced in the Senate on July 11, the bill, S. 2840, incorporates many of the recommendations of the AICPA's Task Force on Improving Federal Financial Management, including the recommendation to establish a CFO for the United States and for each federal agency. The bill also would require that each government corporation prepare annual financial statements in accordance with GAAP and that each agency's financial statements be audited annually.

The AICPA saluted the bill as the first step toward improving federal financial practices. However, "S. 2840 doesn't go far enough to guarantee the government's financial accountability," said B.Z. Lee, AICPA deputy chairman for federal affairs. "This bill doesn't give the CFO enough authority."

Instead, the bill spreads the responsibility and authority for implementing necessary reforms across several federal agencies and would not require the use of specific accounting standards.

S.2840 is co-sponsored by Sens. William Roth (R-Del.), Tom Harkin (D-Iowa), Herbert Kohl (D-Wis.), and Daniel Akaka (D-Hawaii).

## CPA Firms to Seek More Graduates with Advanced Degrees

CPA firms expect a 10% growth in the demand for graduates with master's degrees, and a 1% growth in demand for graduates with bachelor's degrees, according to the 1990 edition of the AICPA's report, *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits*. The report details the results of a survey conducted last fall of more than 14,470 public accounting firms and more than 770 colleges and universities with accounting programs. The annual survey employed new methods this year to report more comprehensive information on supply and demand trends, said Rick Elam, AICPA vice-president-education.

The study also showed that:

- More than 57,700 bachelor's and master's degrees in accounting were awarded in 1988-89, and a 3% growth in graduates is projected for 1989-90.
- Approximately 24,890 accounting graduates were hired in public accounting in 1989; and some 25,320 accounting graduates are expected to get jobs this year, for a total growth in demand of 2%.

To order *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits* (product number G00096), write to the AICPA Order Department, P.O. Box 1003, New York, N.Y. 10108-1003.

## AICPA Disciplinary Actions of the Joint Trial Board

**Member Expelled**—The membership of Kenneth A. Jowaiszas of Clifton, N.J., was terminated on April 20, 1990, for failing to comply with continuing professional education requirements of a Joint Trial Board hearing panel, which adjudicated ethics charges against him on Jan. 20, 1989. At that hearing, Jowaiszas was found guilty of violating the Institute's rules pertaining to compliance with standards and acts discreditable to the profession and was admonished. In addition, he was required to complete specified CPE courses in each of the 12-month periods following the effective date of the hearing panel's decision and, if he did not, he was to be automatically expelled from membership without further proceedings. (*The CPA Letter*, April 14, 1989.)

**Member Expelled**—A hearing panel of the Joint Trial Board, which met in Dallas on March 20, 1990, voted to expel Max Stacy of Mangilao, Guam, from AICPA membership for violating the Institute's Code of Professional

Conduct. The panel found that Stacy had undertaken to perform engagements, which he could not reasonably expect to complete with professional competence, had failed to comply with the applicable generally accepted auditing standards promulgated by the Institute, and had committed an act discreditable to the profession by failing to follow government standards when engaged to audit government grants.

Stacy, who was not present at the Dallas hearing, but who was advised in writing of the hearing panel's decision, requested a review of the decision and asked for permission to appear before the ad hoc committee considering his request for review. Stacy presented his appeal to the ad hoc committee in New York on June 21, 1990, and the committee voted unanimously to deny his request for review. Stacy's expulsion, which was stayed pending the outcome of the request for review, therefore became effective on June 21, 1990.

► ***Louisiana Becomes 12th State to Raise Education Requirement***

Louisiana has become the 12th state to pass the 150-hour education requirement for CPA candidates. Effective Dec. 31, 1996, the Louisiana law follows the guidelines recommended by the AICPA for states adopting the requirement, thus helping to ensure uniformity among states that require 150 hours and allowing the state boards of accountancy to set minimum curriculum requirements. Alabama, Florida, Hawaii, Kansas, Kentucky, Mississippi, Montana, Tennessee, Texas, Utah, and West Virginia also have passed the 150-hour requirement.

► ***International Accounting Group Issues Ethics Guidelines***

The globalization of business and the resulting need for harmonized accounting standards has led the International Federation of Accountants (IFAC) to issue its "Guideline on Ethics for Professional Accountants." IFAC wants the guideline to serve as a prototype for an international code of business ethics. The first attempt to institute a comprehensive code for all accountants worldwide, the document is divided into sections for accountants in public practice and in industry. For a copy, write to IFAC, 540 Madison Ave., 21st Floor, New York, N.Y. 10022.

► ***MIT Professor Wins Accounting Literature Award***

Paul M. Healy, associate professor of management at the Sloan School of Management at the Massachusetts Institute of Technology, is the 23rd winner of the AAA/AICPA Notable Contributions to Accounting Literature Award. Healy's article, "The Effect of Bonus Schemes on Accounting Decisions," published in April 1985 in the *Journal of Accounting and Economics*, was selected by a joint committee of the AICPA and the American Accounting Association. The Accounting Literature Award will be presented during the AAA's annual meeting in Toronto next month.

► ***Committee Wants Research on Women CPAs***

The AICPA's Upward Mobility of Women Committee is seeking information on current or future research on how "stress" affects the career advancement of female CPAs. Please send copies of relevant studies on the subject or information on what research is underway to Frank J. Katusak, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036, or call 212/575-5267.

***New CPE Requirements Affect All Members***

Effective this year, *all members* (except retirees) must meet new CPE requirements to continue their AICPA memberships. Beginning this year, the new requirements apply as follows:

- Members not in public practice must complete 60 hours of CPE during the first three-year reporting period, including *a minimum of 10 hours each year*.
- Members in public practice must complete 120 hours of CPE in each three-year reporting period, including *a minimum of 20 hours each year*.

A wide range of programs will be acceptable under the new CPE rules. For answers to questions about the new requirements, write to Michele Thomas, technical adviser, CPE Division, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

► ***Commentator Elizabeth Drew to Address Annual Meeting***

Elizabeth Drew, an author and commentator for Post-Newsweek television stations, will address the AICPA annual meeting during the member-guests luncheon on Monday, Oct. 22. The 103rd annual meeting will be held Oct. 21 to 24 in Baltimore. An author of five books, including *Politics and Money: The New Road to Corruption* (Macmillan, 1983), Drew is a frequent contributor to *The New Yorker* and has participated in "Meet the Press" and "Face the Nation," among other television news shows. Other speakers for the annual meeting include futurist John Naisbitt, Harvard Law School professor Charles Nesson, and Jay Woodworth, vice-president and senior domestic economist for Bankers Trust Co., New York. For more information, call AICPA Meetings and Travel Services, 212/575-6451.

► ***Applications Available for White House Fellowships***

Applications are available for the 1991-92 White House Fellowships Program. Fellows serve for one year as special assistants in the office of the president, vice-president or to a member of the cabinet. Open to all United States citizens in the early stages of their careers and from all occupations and professions, the fellowship also includes an education program. Applications are available from the President's Commission on White House Fellowships, 712 Jackson Place, N.W., Washington, D.C. 20503. Completed applications are due by Dec. 15.

**The Quality Review Executive Committee** will discuss the following items when it meets on Aug. 6 at 8 a.m. at the Portland Marriott in Portland, Ore.:

- Morning: Reviewer rates for 1991; annual meeting of the Quality Review Committee chairmen of July 9 and 10; corrective actions and monitoring procedures.
- Afternoon: Update to the *State Society Administrative Manual*; state oversight boards; 1989 oversight program.

**The Auditing Standards Board** will discuss the following items when it meets on Aug. 14 to 16 from 8 a.m. to 5 p.m. at the Hotel Nikko in San Francisco:

- Aug. 14, morning: Receive an update on the Financial Executives Research Foundation's project on developing integrated guidance about internal controls.
- Afternoon: Review a draft of a proposed *Statement on Standards for Attestation Engagements* that would contain guidance for examination-level reporting on internal controls.
- Aug. 15, morning: Discuss comments received on the exposure draft of the proposed SAS, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.
- Discuss proposed revision to SAS No. 44, *Special-Purpose Reports on Internal Accounting Control at Service Organizations*.
- Afternoon: Discuss proposed revision to SAS No. 49, *Letters for Underwriters*.
- Aug. 16, morning: Discuss proposed new SAS on the use of all types of confirmations.

**The Board of Examiners** will discuss the following items when it meets on Sept. 10 at 3 p.m. at the Lafayette

Hotel in Boston:

- The implementation of the May 1994 Uniform CPA Examination changes in structure and format, including the board's document of Feb. 12, 1990, *Information for Boards of Accountancy, Implementing Changes in the Uniform CPA Examination*.

**The Professional Ethics Executive Committee** will discuss the following items when it meets on Sept. 12 at 9:30 a.m. at the Marriott Riverwalk in San Antonio:

- Proposed rulings under rule 101: "Partnership Investment in Client," "Meaning of a Joint Closely Held Business Investment," and "Member's Investment in a Master Limited Partnership."
- Proposed revision of interpretation 101-8 under rule 101, "Effect on Independence of Financial Interests in Non-clients Having Investor or Investee Relationships With a Member's Client."
- Proposed revision of ruling number 69 under rule 101, "Investment With a Promoter and/or General Partner."
- Proposed deletion of ruling number 62 under rule 101, "Member and Client Are Limited Partners in a Limited Partnership."
- Proposed revision of interpretation 101-10 under rule 101, "The Effect on Independence of Relationships With Entities Included in the Financial Statements of a Government Reporting Entity."
- Proposed deletion of ruling number 42 under rule 101, "Members as Life Insurance Policyholders."
- Proposed ruling under rule 502, "Use of the AICPA Accredited Personal Financial Specialist Designation."
- Consideration of adoption of pronouncements in the omnibus exposure draft of May 22.

## ***IRS Fines Are Possible for Failing to File 5500 Form***

Any firm in the AICPA member-retirement program that missed the July 31 deadline to file the 5500 Form with the IRS could be fined by the IRS as much as \$1,000 per day. Even participating firms in the so-called "Frozen Plans" must file the form. The program administrator, the Mutual Life Insurance Co. of New York, mailed a packet of sample forms and instructions to participating firms last month. Representatives of program member firms who have questions or who did not receive the sample forms may call 800/MONY-800.

## ***Notice to Firms: Forms for Scheduling Reviews Should Be Returned Promptly***

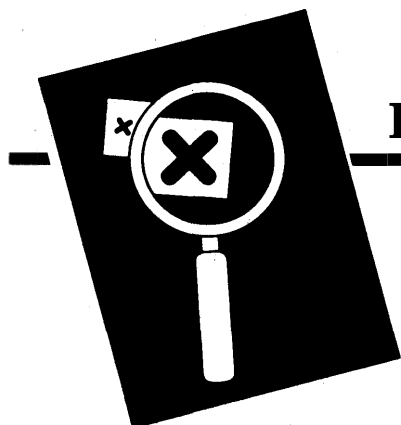
The AICPA Quality Review Division and state CPA societies periodically mail forms to firms enrolled in the QR program and in the Division for CPA Firms. These forms ask for information needed to schedule the more than

4,000 quality reviews and the more than 2,500 peer reviews that will be conducted this year. Returning the forms promptly is important, since follow-up letters and telephone calls are costly. If your firm has not yet returned forms for scheduling reviews, please do so now.

## ***Moving or Changing Jobs?***

Reminder to members: New CPE and practice-monitoring membership requirements make it particularly important that all Institute records reflect each member's current membership status. Please notify AICPA Membership Records in writing about any change in your job classification or address. Send a notice of these changes to AICPA Membership Records, 1211 Avenue of the Americas, New York, N.Y. 10036-8775. Job classification and address changes cannot be made over the telephone.

Members also are encouraged to use the space provided on the 1990-1991 dues bills, which were mailed recently, to report any changes of this kind.



## Paperbacks on Disks Series (PODS)

### *No More Hunting For Buried Treasure*

With Paperbacks on Disks Series (PODS) from AICPA, you no longer have to hunt for well-hidden pieces of information on any report, letter or memo.

**Paperbacks on Disks Series (PODS)** offers an electronic format using advanced search and retrieval software from Folio Corporation. With just a key word or words, you can easily locate relevant passages needed because every word in PODS is indexed. The use of compression routines called Underhead Technology reduces hard-disk storage requirements.

The PODS approach to search and retrieval is quick and easy:

- create search requests with the Boolean logic operators such as "and," "or," and "not"
- wildcard searches for words need only one or more unspecified characters
- information can be located by topic rather than just words
- search for phrases and words within a specified proximity or ordered proximity.

PODS has a context-sensitive help system and extensive printer support. Available options are always displayed on screen.

#### **System Requirements**

IBM PC, XT, AT, PS/2 or 100%-compatible system • DOS 2.0 or higher • 512K RAM minimum • Single diskette drive and a hard drive.

Telephone support is available through the AICPA Software Support at 212-575-5412.

#### **Accounting and Auditing Products**

**Electronic Index to Technical Pronouncements** (as of 3/31/90) No. 016932 **\$ 60**

**Technical Hotlines Qs & As** (as of 3/31/90) No. 016935 **\$ 60**

**Professional Standards, Volume 1** (as of 3/31/90) No. 016933 **\$ 60**  
Includes codifications of *Statements on Auditing Standards* and *Standards for Attestation Engagements*

**Professional Standards, Volume 2** (as of 3/31/90) No. 016934 **\$ 60**  
Includes *Code of Professional Conduct*, *AICPA Bylaws*, and codifications of *International Accounting Standards*, *International Auditing Guidelines*, *Standards for Accounting and Review Services*, *Standards for Management Advisory Services*, *Quality Control Standards*, *Standards for Performing and Reporting on Quality Reviews*, and *Statements on Responsibility in Tax Practice*.

**Accounting Trends and Techniques, 1989** No. 016931 **\$ 60**

#### **Tax Products**

**1990 Internal Revenue Code** No. 016930: 1988 Edition of Title 26 of the U.S. Code. Recently rewritten by the Law Revision Council of Congress, and includes major tax legislation passed in 1989. (*You need 10 mg to use this program.*) **\$130**

**1990 IRS Taxpayer Information Publications—Basic Set.** No. 016937 **\$100**  
Includes Pub. 17, your Federal Income Tax and Pub. 334, Tax Guide for Small Business.

**1990 IRS Taxpayer Information Publications—Complete Set.** No. 016936 **\$300**  
Includes basic set (see above) and all 81 other IRS Taxpayer Information Publications. (*You need 8 mg to use this program.*)

**All prices are subject to 20% AICPA member discount.**

**NOTE:** Paperbacks on Disks Series (PODS) is similar to the new AICPA Electronic Body of Knowledge Subscriptions (EBOKS), except that *no* updates are provided for PODS.

# Paperbacks on Disks Series (PODS)

Brand New from the AICPA

## Folio VIEWS™ \$495

Folio VIEWS™ lets you annotate infobases provided by the AICPA and other sources and supplements them with your own material. You can also build your own databases of correspondence—manuals, for example. Now it's easy to cut-and-paste information from one infobase to another and to build personalized compilations of accounting information for easy distribution to your personnel.

Folio VIEWS™ is easy to learn and easy to use. Its lightning-fast search speeds and other features are sure to make it an invaluable tool in your practice. No. 016515

## Folio PreVIEWS™ \$50

Same features as search retrieval software in EBOKS or PODS, but now you can search for *more than one publication*. Managing accounting information will never be an overwhelming chore again. No. 016516

### How to Order

Call Toll Free: 1-800-334-6961

In New York State, call 1-800-248-0445.

Ask for Operator CPA 715.

When ordering by phone, be prepared to give the operator the following information: member number, product codes, and VISA or MasterCard number and expiration date.

Or complete the order form below and return to AICPA, Order Department, P.O. Box 1003, New York, NY 10108-1003.

## ORDER FORM

CPA 715

MEMBER NO. \_\_\_\_\_

NAME \_\_\_\_\_

FIRM \_\_\_\_\_

ADDRESS \_\_\_\_\_

CITY \_\_\_\_\_

STATE \_\_\_\_\_

ZIP \_\_\_\_\_

Title	Product No.	List Price	AICPA Member Price	
Electronic Index to Technical Pronouncements	016932	\$ 60	\$ 48	_____
Technical Hotline Qs & As	016935	\$ 60	\$ 48	_____
Professional Standards 1	016933	\$ 60	\$ 48	_____
Professional Standards 2	016934	\$ 60	\$ 48	_____
Accounting Trends and Techniques (1989 edition)	016931	\$ 60	\$ 48	_____
1990 Internal Revenue Code	016930	\$130	\$104	_____
1990 IRS Taxpayer Information Publications, Basic Set	016937	\$100	\$104	_____
1990 IRS Taxpayer Information Publications, Complete Set	016936	\$300	\$240	_____
Folio VIEWS™	016515	\$495	\$396	_____
Folio PreVIEWS™	016516	\$ 50	\$ 40	_____

Subtotal \$ \_\_\_\_\_

Shipping/Handling \$ \_\_\_\_\_

Sales Tax (if applicable) \$ \_\_\_\_\_

TOTAL \$ \_\_\_\_\_

SHIPPING AND HANDLING FEES	
\$ Amount of Order	Shipping and Handling
\$25.01-\$ 50.00	\$4.95
\$50.01-\$150.00	\$5.95
Over \$150.00	4% of total

Please add 8.25% sales tax in New York City. Elsewhere in New York State add 4% state tax plus local tax if applicable. In Washington, D.C., add 6% tax, and in Vermont add 4% state tax.

**PAYMENT METHOD** ☐ Check enclosed ☐ Bill me (AICPA members only) ☐ MasterCard ☐ VISA

Card account number \_\_\_\_\_ Expiration Date \_\_\_\_\_

Signature \_\_\_\_\_

## A Special Report from the AICPA Industry Committee

### NATIONAL INDUSTRY CONFERENCE DRAWS RECORD ATTENDANCE

A record 688 paid participants at the 1990 National Industry Conference, held on April 26 and 27 in Orlando, gave the conference an overall rating of 4.16 on a scale of 1 to 5. Some highlights of the conference were:

- Two breakout sessions on strategic management accounting were conducted by John Shank, Noble professor of managerial accounting at the Amos Tuck School of Business at Dartmouth University. Shank is one of the leading proponents of activity-based costing and its related methodologies, which are revolutionizing cost accounting. In his presentation, Shank showed how the allocation of indirect costs through traditional volume-based methods can distort the unit costs of alternative products in a company's product line. Shank demonstrated how accountants can identify the cost-driving activities behind indirect costs and provide a more accurate assessment of alternative product costs for management to use in pricing, product mix, marketing, and other strategic business decisions. Shank is co-authoring a managerial accounting course to be included in the AICPA's Certificate of Educational Achievement in Financial Management program, available next spring.

- Management consultant Jim Hennig's two sessions on "Win-Win Negotiations" provided practical guidance on conducting formal and informal negotiations, which are a significant part of every financial executive's job. He highlighted the importance of reading the body language of other parties involved and described the characteristics of a successful negotiator, the most common errors in negotiating, and the special characteristics of telephone negotiations. Hennig's two sessions on "Managing Change" also attracted much interest, and several participants commented that the Institute should continue to offer such management education at future programs for CPAs in industry.

- Robert Reich, professor of political economy at the JFK School of Government at Harvard University, analyzed the outlook for improved competitiveness by U.S. businesses in the coming decade. Reich described the factors that have led to a drop in U.S. productivity since the mid-1970s. The saturation of the U.S. market for high-volume standardized goods and the technological advances in transportation and communication have allowed non-U.S. businesses to eliminate competitive advantages that U.S. businesses had previously enjoyed, he stated. Of the various approaches to recapture productivity gains and the market domination common to U.S. companies between 1945 and 1975, the most promising is the trend toward tailoring products and services to fit

customers' individual needs more closely, Reich said. Such a strategy is an option for any business that has found its profit margins squeezed by foreign competition, he commented.

- Former Secretary of Labor Ann McLaughlin addressed a general session of participants on the subject of international competition and changes in the work force. The ability of American businesses to compete effectively in the global economy will depend on how well they attract and hold workers as the labor force continues to shrink, she said. Businesses will be unable to compete unless they establish policies and benefits to make themselves attractive to the women, minorities and immigrants who are entering the work force in large numbers today. "Companies will need creative, targeted recruitment and training efforts and flexible work schedules," said Ms. McLaughlin. Companies will also need to take a greater interest in their employees' needs outside of work by offering such benefits as parental leave and child- and elder-care assistance, she stated.

Next year, the National Industry Conference will be held April 25 to 27 in Phoenix.

### INDUSTRY MEMBERS IDENTIFY KEY PROBLEMS FACING THE PROFESSION

Attendees of the 1990 National Industry Conference were asked during one session to write down the most important issues facing the profession from their perspective. Here are the seven major issues, listed in order of the number of times each was mentioned:

- 1) Need for knowledge and CPE
- 2) Financial accounting standards overload
- 3) Attracting the most qualified students to the profession
- 4) Government regulation
- 5) Ethics
- 6) Image and professionalism of CPAs
- 7) International issues.

### STATE SOCIETY INDUSTRY COMMITTEE LEADERS DISCUSS NEW PROGRAMS

The day before the National Industry Conference, representatives of the industry committees of the state CPA societies met to share information on how best to meet the needs of industry members. Some of the programs discussed include the following:

- The industry committee in Tennessee said it has sponsored a Career and Interview Day for undergraduate accounting students. (Industry committees in Georgia and Missouri have similar programs.) In the program, students from small accounting schools outside major metropolitan areas meet CPAs from accounting firms and in private industry to discuss careers and potential job opportunities.

---

## ***Special Report: For Industry Members Only (continued)***

Because of the size or location of the schools involved, the participating employers might not otherwise meet such outstanding students.

■ Representatives from several states reported that they have been working with their state boards of accountancy on issues of particular concern to industry members. Specifically cited were the rules regarding use of the CPA designation and the acceptability of non-technical courses in fulfilling the CPE requirement.

■ On the issue of CPE, members offered several suggestions for increasing the number of CPE programs for CPAs in industry, including one suggestion that advanced courses be offered. Members cited surveys showing that as many as 66% of respondents said their primary job function was controller, chief financial officer, chief operating officer, president, or chief executive.

■ Representatives of several states discussed ways to establish successful member-forum programs, which are formal or informal meetings of members to discuss current issues. Some member-forum programs offer CPE credit, and others are less structured. Running successful member-forum programs involves: good planning (Missouri), good promotion (Minnesota), designating key committee people as coordinators (Oklahoma), and developing a loyal core of participants (Minnesota). Having the state society provide facilities and organizational support is helpful but not critical, members said. Finding the most unifying characteristic among members of the forum groups is also important, participants said. All members may be controllers, or work in the same industry, or in the same part of town, for example. The participants agreed that an initial lack of success should not deter forum group organizers. For instance, programs in Missouri and Washington have been successful recently despite early problems.

■ The Ohio Society of CPAs established a network of key CPA contacts at major employers throughout the state.

■ The Tennessee Society of CPAs developed a recruitment brochure targeted to members in industry.

■ The Illinois CPA Society established a membership division for CPAs in industry (and other states have made similar efforts to meet the needs of industry members).

The participants agreed to continue to exchange information on society activities throughout the year. CPAs in industry are encouraged to call their society offices to learn more about programs for industry members.

### **MANAGEMENT ACCOUNTING DIVISION PROPOSED**

The Industry Committee is reviewing the Report of the Special Committee on Governance and Structure. As

noted in the *The CPA Letter*, June 29, the report recommends that the AICPA establish a Management Accounting Division and a Members in Industry Executive Committee. The AICPA's Board of Directors has appointed the Governance and Structure Evaluation and Implementation Committee to evaluate the recommendations and any comments it receives on those recommendations, and suggest an appropriate program of implementation. The Industry Committee is preparing a response to the recommendations and will continue to take an active role in representing the interests of members in industry throughout this process.

### **REVISED MODEL BILL AFFECTS INDUSTRY CPAs**

A current discussion draft of the revised Model Public Accountancy Bill provides for the acceptance of CPE credits earned in non-technical courses and reciprocity for certificate holders as well as licensees. Both positions were advocated by the Industry Committee in comment letters on an earlier draft of the bill.

### **SELECTED READINGS AVAILABLE FOR CPAs IN INDUSTRY**

The first two-volume edition of *Selected Readings for CPAs in Industry* is now available through the AICPA Order Department. Each volume of *Selected Readings* includes reprints of 25 to 30 articles of particular interest to CPA financial executives. Chosen by the Industry Committee from leading business and professional journals published in the second half of 1989, the first edition consists of one volume of articles on technical subjects and one volume of articles on management subjects.

The articles address the industry CPA's wide variety of professional responsibilities. The Industry Committee sought articles that presented innovative, practical, and widely applicable ideas. The topics on management subjects range from human resources and benefits management to strategic and global planning. The topics on technical subjects range from financial accounting and reporting to information systems and computing.

Future editions of *Selected Readings* will be published semi-annually.

To order *Selected Readings for CPAs in Industry* call the AICPA Order Department at 800/334-6961 or 800/248-0445 in New York State. The product number for Volume 1, *Management*, is 090011; Volume 2, *Technical*, is 090010. The price of each volume is \$35; \$28 for members. Or, you can buy both volumes (090012) for \$60; \$48 for members.

---

## UPCOMING CONFERENCES

**The Research Symposium** is for financial managers and auditors in government. Sponsored by the Association of Government Accountants (AGA), the symposium will present current issues in government financial management research. Dates and location: Aug. 27 and 28 at the University of Maryland in College Park. Registration: \$275 (\$235 before Aug. 10); \$250 for AGA members (\$199 before Aug. 10). Recommended CPE credit: 14 hours. For information, call Thomas J. Sadowski, 314/751-3100.

**The Public Relations Conference** is for PR practitioners and CPAs seeking to improve their public relations skills and their ability to market professional services. Sponsored by the AICPA's Communications Division, the conference is designed to help participants communicate more effectively with clients, community organizations, and the media. Dates and location: Sept. 12 to 14, Orlando. Recommended CPE credit: 14 hours. Registration: \$285. For information, call 212/575-5574.

**The 1990 National Governmental Training Program** is for public accountants planning or doing governmental

audits or not-for-profit audits, governmental auditors at all levels, and auditors and managers of not-for-profit organizations who are receiving governmental assistance. Sponsored by the AICPA's CPE Division, the conference will include information on new reporting requirements for not-for-profit organizations, including Circular A-133. Dates and location: October 10 to 12, Las Vegas. Recommended CPE credit: 24 hours. Registration: \$695 (\$645 on or before Sept. 7). For information, call 800/242-7269, or 212/575-5696 in New York State.

**The National Conference on the Securities Industry** is for financial accounting professionals and CPA practitioners in the stock brokerage and investment banking industries. Topics will include SEC developments, new pronouncements, emerging issues, tax and regulatory matters, productivity, cost control, and efficiency. Dates and location: Nov. 28 and 29, New York City. Recommended CPE credit: 14 hours. Registration: \$495. For registration and information, call 212/575-6451.

## PUBLICATIONS

The following publications and products are available from the AICPA's Order Department:

**Tax Practice Management** (029540) by William H. Behrenfeld, JD, LL.M., CPA, and Robert J. Ranweiler, CPA, is a looseleaf manual that addresses the how-to aspects of organizing an efficient tax practice and coordinating it with the other elements of a practice. It will be updated annually. A special introductory price of \$99.50 is available until Oct. 1.

**On Your Own! How to Start Your Own CPA Firm** (012641) is a comprehensive resource on starting a practice. For CPAs considering such a move, the book offers guidance in avoiding pitfalls and in building a foundation for growth. For those who already run their own practices, it offers methods to improve operations and increase profitability. Price: \$35; \$28 for members.

**Original Pronouncements—Auditing Standards** (005940) is a research aid that contains all Statements on Auditing Standards (SAS No. 1 through No. 63) and their interpretations issued from November 1972 through June 1990. Areas that have been amended or superseded are highlighted. Price: \$55; \$44 for members.

**Financial Statement Preparation Manual** (019025) is a paperback that serves as a nonauthoritative working tool for accountants. It includes disclosure checklists and illustrative financial statements for agricultural cooperatives,

banks, construction contractors, corporations, credit unions, development-stage enterprises, finance companies, non-profit organizations (including voluntary health and welfare organizations), prospective financial statements, real estate ventures, savings and loan associations, and state and local governmental units. Price: \$45; \$36 for members.

**The Accounting Profession in Australia** (010126) is the 12th booklet in a series on professional accounting in foreign countries that describes the accounting and auditing standards in Australia and compares them with those generally accepted in the United States. Price: \$27.50; \$22 to members.

**The CPA Video Journal**, program number 57, "Spring Council Video Update 1990," is a 19-minute program that highlights professional issues and achievements during 1989 and 1990, including the SECPS vote, the 150-hour education requirement, RICO and tort reform, and other legislative initiatives. When ordering, please specify cassette format and product number: half-inch VHS (888735), half-inch Beta (886725), or three-quarter inch U-Matic (885737). Price: \$25.

**To order new products** write to the AICPA Order Department, CPA 790, P.O. Box 1003, New York, N.Y. 10108-1003, or call 800/334-6961 or 800/248-0445 in New York State and ask for Operator CPA 790. Prices do not include shipping and handling.



***AICPA to Testify on  
Expanding Auditors'  
Responsibilities***

The AICPA will testify on Aug. 2 at a hearing of the Telecommunications and Finance Subcommittee to address the subject of expanding auditors' responsibilities to detect and report illegal activities. The hearing of the subcommittee of the House Energy and Commerce Committee comes in response to a public demand for action on the savings and loan crisis. The subcommittee is chaired by Rep. Edward Markey, D-Mass.

AICPA will monitor this issue and work to assure that any statutory proposals imposing new requirements on the profession will be well defined and specific so as to enable the profession to implement them.

Earlier this month, some officials were discussing including issues affecting CPAs into an amendment to the House crime bill. However, no amendment was forthcoming.

***IRS Seeks Comments on  
New 1990 Tax Forms***

The IRS is seeking comments on advance copies of major 1990 income tax forms for individuals and the tax table and rate schedules. For example, several new lines have been added to Form 1040A, meaning taxpayers previously filing Form 1040 can switch to 1040A. Form 1040A includes new lines for pension and annuity income, payments from an IRA, taxable Social Security benefits, estimated tax payments, and credit for the elderly and disabled. The IRS is seeking comments on Forms 1040EZ, 1040A (and Schedule 1 and new Schedules 2 and 3), 1040 (and Schedules A, B, D, E, F, R, and SE), 2106, 2441, 4562, and new Form 8815, Exclusion of Interest from Series EE U.S. Savings Bonds Issued After 1989. For copies of the forms, write to the IRS, P.O. Box 25866, Richmond, Va. 23289. Comments are due by Sept. 7.

***Agencies Study Definition  
of "Recourse"***

The five agencies that comprise the Federal Financial Institutions Examination Council are seeking comments on the definition of "recourse" and the appropriate reporting and capital treatments to be applied to recourse arrangements for depository institutions and bankholding companies.

"Recourse" refers to a financial institution's acceptance, assumption or retention of any risk of loss associated with owning an asset. Specifically, comments are being sought on how assets transferred with recourse should be reported, including whether to adopt the approach used under generally accepted accounting principles for asset transfers with recourse, or some other consistent approach. Comments are due by Aug. 28. For further details, see the *Federal Register*, June 29.

***Look-Back Method  
Rules Proposed***

The IRS has proposed new rules on the look-back method of section 460(b) of the Internal Revenue Code for long-term contract income reported under the percentage-of-completion method of accounting. The rules provide guidance and include simplified methods of computing interest. The IRS has scheduled a hearing on the proposed rules for Aug. 24. For details see the *Federal Register*, June 12.

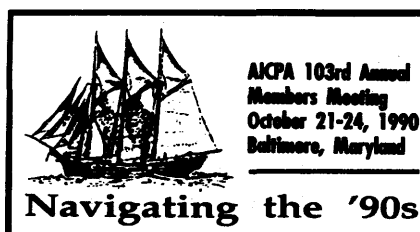
***Federal Reserve Seeks to  
Revise Regulation H***

The Federal Reserve Board of Governors has proposed adding a section to Regulation H to clarify the circumstances under which state member banks may pay dividends. It also would bring calculation of dividend-paying capacity into line with current regulatory reporting standards and generally accepted accounting principles. For further details, see the *Federal Register*, June 13.

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.



# The CPA Letter

## A News Report to Members

---

### What's Inside

Canadian, American Accountants Seek Reciprocity	2
Tax Division Exposes Draft on "Realistic Possibility Standard"	2
Special Report: AICPA, FTC Reach Agreement	3
Conyers to Introduce Legislation for CFO	8
AICPA Supports Pension Simplification Bill	8

### Two Bills Aim to Ease Fiscal Year-End Woes

**Identical proposals would allow modification of existing year-ends.** Two identical bills were introduced in Congress—one in each chamber—to modify rules governing the election and retention of fiscal tax year-ends. The proposals would allow entities to elect, re-elect, or modify their existing fiscal year-ends and to elect a fiscal year ending in any month.

H.R. 5484 was introduced in the House by Ronnie Flippo (D-Ala.) and Hank Brown (R-Colo.). S. 2980 was introduced in the Senate by Max Baucus (D-Mont.) and John Heinz

(R-Pa.). The AICPA is optimistic that the bills will be passed this year because the measures are revenue-neutral.

In response to complaints by AICPA members, Institute leadership has been working to have Congress change the rules. CPAs are asked to urge their congressmen to cosponsor S. 2980 and H.R. 5484 and encourage them to include the provisions in any tax or budget legislation passed this year. For more information, write to Carol Ferguson, technical manager, AICPA, 1455 Pennsylvania Ave., N.W., Washington, D.C. 20004-1007, or call 202/737-6600.

### AICPA Supports Reporting on Internal Controls

**Institute opposes requiring auditors to report illegal acts to the SEC.** The AICPA endorses a measure that corporate management be required to report on their internal controls and that those

reports be examined by independent auditors, Donald L. Neebes, chairman of the AICPA's Auditing Standards Board, said in congressional testimony Aug. 2. The House Subcommittee on Telecommunications and Finance was discussing ways to include reporting on internal controls and ways to expand auditors' responsibilities to detect and report illegal acts.

The AICPA opposes legislation that would require auditors to report confidentially to the

SEC when an auditor uncovers so-called "substantial illegalities," Neebes said. The existing requirements for auditors to report illegal acts are sufficient to protect the public, he stated.

If legislation requires the performance of audit procedures related to illegalities and insider abuses; and it recognizes that any audit test is within the competency of accountants to perform, and is consistent with auditing standards, the AICPA will have no objection, Neebes commented. He warned, however, that while auditors can be regarded as reliable experts in financial matters, they are often ill equipped or unable to arrive at conclusions on complex legal matters.

### Rostenkowski Introduces Bill to Revise Estate Freeze Rules

**Bill would repeal section 2036(c) of the Internal Revenue Code.**

A bill introduced by Rep. Dan Rostenkowski (D-Ill.), chairman of the House Ways and Means Committee, would repeal section 2036(c) of the Internal Revenue Code. Section 2036(c) eliminated the estate valuation freeze technique used by businesses to transfer ownership to the next generation. A modified version of a discussion draft on estate freeze rules circulated for comment earlier this year

(*The CPA Letter*, May 11). Rostenkowski's bill was introduced Aug. 1.

Under the bill, H.R. 5425, section 2036(c) would be replaced by a statutory formula to value an interest retained in an entity to determine the value of the interest given or sold in the entity. The Institute recommends that the valuation formula be made an elective safe harbor.

The AICPA has submitted technical corrections to Congress and testified twice on the proposal.

### ► **Canadian Accountants and CPAs Move Toward Reciprocity**

Working to develop a framework for reciprocity for CPAs and Canadian accountants, representatives of the AICPA, the National Association of State Boards of Accountancy, and the Canadian Institute of Chartered Accountants met in Vancouver last month. As shown by the Free-Trade Agreement, the special relationship between the United States and Canada strongly suggests that the profession look beyond national boundaries, the group said. After procedural requirements were satisfied, reciprocity would enable the granting of Canadian practice rights to American CPAs and full CPA status to Canadian accountants. Achieving reciprocity would require developing screening examinations, and evaluating existing professional exams, educational qualifications, and experience.

### ► **Exposure Draft Interprets "Tax Return Positions" Standard**

The AICPA Tax Division has issued an exposure draft that interprets the tax preparation standard "Tax Return Positions." Titled *Proposed Interpretation of Statement on Responsibilities in Tax Practice (1988 Revision) No. 1, "Realistic Possibility Standard,"* the draft provides illustrations of how the standard may be applied. The draft has been mailed to all members of the AICPA governing Council, Board of Directors, and Tax Division. For a free copy of the draft, write to the AICPA Order Department, P.O. Box 1003, New York, N.Y. 10108-1003 or call 800/334-6961; in New York State, call 800/248-0445. Ask for product number G00579. Send comments to Joseph W. Schneid, AICPA Tax Division, 1211 Avenue of the Americas, New York, N.Y. 10036-8775. The comment period ends Sept. 28.

### ► **Annual Meeting to Address Members' Needs**

Where is the profession headed? How will the global economy and the growth of information technology affect CPAs? How is the role of the auditor changing? The answers to these and other questions will be discussed at the AICPA's 1990 Annual Members' Meeting in Baltimore, Oct. 21 to 24. The program this year will include small concurrent sessions in which members can focus on specific issues important to all CPAs. Topics will include: human resources—challenges and opportunities; tax issues on the horizon; the CPA firm of the future; the Institute's response to members' needs; the changing role of the auditor; and the future impact of information technology. For more information, call AICPA Meetings and Travel Services, 212/575-6451.

### ► **Entrance Date for AICPA Life Insurance is Oct. 1**

The next entrance date for eligible CPAs to begin or increase coverage under the CPA Plan for individuals or the Group Insurance Plan for firms is Oct. 1. As much as \$750,000 in term life insurance plus an equal amount of accidental death and dismemberment coverage is available under the CPA Plan. Similar insurance benefits are provided under the Group Insurance Plan, which has a maximum of \$200,000 available. Invitations and descriptive literature concerning both plans were mailed recently. Any AICPA member who did not receive the brochure or who wants additional information may write to the plan agent, Rollins Burdick Hunter Co., 605 Third Ave., New York, N.Y. 10158, or call 800/223-7473; in New York State, call collect, 212/973-6200.

### ► **POB Seeks Nominations for McCloy Award**

The Public Oversight Board (POB) is seeking nominations for the John J. McCloy Award. The award is given annually to an individual who has made a significant contribution to strengthening quality control and improving auditing in the United States. Nominees may include practitioners, educators, standard-setters, and regulators. Nominations and a summary of the individual's contributions are due by Sept. 30 at POB, 540 Madison Ave., New York, N.Y. 10022.

### **New CPE Requirements In Effect This Year**

Effective this year, *all members* (except retirees) must meet new CPE requirements to continue their AICPA memberships. The new education requirements mean:

- Members not in public practice must complete 60 hours of CPE during the first three-year reporting period, including *a minimum of 10 hours each year.*
- Members in public practice must complete 120 hours of CPE in each three-year reporting period, including *a minimum of 20 hours each year.*

For answers to questions about the wide range of programs that will be acceptable under the new requirements, write to Michele Thomas, technical adviser, CPE Division, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

The CPA Letter (ISSN 0094-792x), August 1990. Published semimonthly, except July and August, when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036-8775. Second-class postage paid at New York, N.Y. and at additional mailing offices. Copyright © 1990, American Institute of Certified Public Accountants, Inc. Postmaster: Send address

changes to Circulation Department, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

**Helene Kennedy**  
Director—Communications and Public Relations

**Joseph Burns**  
Editor

## Federal Trade Commission Issues Final Order

### ANNOUNCEMENT

As you may be aware, the American Institute of Certified Public Accountants ("AICPA") has entered into a consent agreement with the Federal Trade Commission that became final on Aug. 3, 1990. The order issued pursuant to the consent agreement provides that AICPA may not interfere if its members wish to engage in any of the following activities:

- (1) accepting contingent fees from nonattest clients;
- (2) accepting disclosed commissions for products or services supplied by third parties to nonattest clients;
- (3) engaging in advertising and solicitation;
- (4) making or accepting disclosed payments for referring potential clients to a CPA; or
- (5) using trade names.

The order allows AICPA to prohibit its members from accepting contingent fees for preparing original or amended tax returns or claims for tax refunds.

The order does not prevent AICPA from formulating reasonable ethical guidelines prohibiting solicitation, advertising or trade names that it reasonably believes would be false or deceptive within the meaning of Section 5 of the Federal Trade Commission Act.

In particular, without attempting to be all-inclusive, the agreement between AICPA and the Federal Trade Commission means that as long as its members do not engage in falsehood or deception, AICPA cannot prevent

or discourage them from engaging in the following practices, among others:

- (a) in-person solicitation of prospective clients;
- (b) self-laudatory advertising;
- (c) comparative advertising;
- (d) testimonial or endorsement advertising;
- (e) advertising that some members may believe is "undignified" or lacking in "good taste;"
- (f) assisting any state government that is not an attest client in claiming a Medicare refund pursuant to a contingent fee contract;
- (g) preparing financial plans for nonattest clients for which members will be compensated by commissions from the sellers of products or services that such clients purchase;
- (h) using trade names, such as "Suburban Tax Services;"
- (i) paying referral fees to marketing firms that assist members in soliciting potential clients; and
- (j) offering clients a discount for referring a prospective client.

For more specific information, you should refer to the FTC order itself. The text of the order follows.

**PHILIP B. CHENOK**

*President*

*American Institute of Certified Public Accountants*

## United States of America Before Federal Trade Commission

### COMMISSIONERS:

Janet D. Steiger, *Chairman*  
 Terry Calvani  
 Mary L. Azcuenaga  
 Andrew J. Strenio, Jr.  
 Deborah K. Owen

### *In the Matter of*

**American Institute of Certified Public Accountants,  
 a corporation.**

**DOCKET NO. C.3297  
 DECISION AND ORDER**

The Federal Trade Commission having initiated an investigation of certain acts and practices of the respondent named in the caption hereof, and the respondent having been furnished thereafter with a copy of a draft of complaint which the Bureau of Competition proposed to present to the Commission for its consideration and which, if issued by the Commission, would charge respondent with viola-

tion of the Federal Trade Commission Act; and

The respondent, its attorneys, and counsel for the Commission having thereafter executed an agreement containing a consent order, an admission by the respondent of all the jurisdictional facts set forth in the aforesaid draft of complaint, a statement that the signing of said agreement is for settlement purposes only and does not constitute an

admission by respondent that the law has been violated as alleged in such complaint, and waivers and other provisions as required by the Commission's rules; and

The Commission having thereafter considered the matter and having determined that it had reason to believe that the respondent has violated the said Act, and that-complaint should issue stating its charges in that respect, and having thereupon accepted the executed consent agreement and placed such agreement on the public record for a period of sixty (60) days, and having duly considered the comments filed thereafter by interested persons pursuant to § 2.34 of its Rules, and having duly considered the recommendations of its staff to modify the consent agreement pursuant to the comments received and the

supplemental letter agreement executed by the respondent's counsel, now in further conformity with the procedure prescribed in § 2.34 of its Rules, the Commission hereby issues its complaint, makes the following jurisdictional findings and enters the following order, as modified:

1. Respondent American Institute of Certified Public Accountants is a corporation organized, existing and doing business under and by virtue of the laws of the District of Columbia, with its office and principal place of business located at 1211 Avenue of Americas, New York, New York 10036-8775.

2. The Federal Trade Commission has jurisdiction of the subject matter of this proceeding and of the respondent, and the proceeding is in the public interest.

---

### ORDER I.

---

IT IS ORDERED that for purposes of this order the following definitions shall apply:

A. **"AICPA"** means American Institute of Certified Public Accountants and its Board of Directors, Council, committees, task forces, officers, representatives, agents, employees, successors, and assigns;

B. **"Attest service"** means providing (1) any audit, (2) any review of a financial statement, (3) any compilation of a financial statement when the certified public accountant ("CPA") expects, or reasonably might expect, that a third party will use the compilation and the CPA does not disclose a lack of independence, and (4) any examination of prospective financial information;

C. **"Audit"** means an examination of financial statements of a person by a CPA, conducted in accordance with generally accepted auditing standards, to determine whether, in the CPA's opinion, the statements conform with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting;

D. **"Commission"** means compensation, except a referral fee, for recommending or referring any product or service to be supplied by another person;

E. **"Compilation of a financial statement"** means presenting in the form of a financial statement information that is the representation of any other person without the CPA's undertaking to express any assurance on the statement;

F. **"Contingent fee"** means a fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service;

G. **"Disciplinary action"** means revocation or suspension of, or refusal to grant, membership, or the imposition

of a reprimand, probation, constructive comment, or any other penalty or condition;

H. **"Examination of prospective financial information"** means an evaluation by a CPA of (1) a forecast or projection, (2) the support underlying the assumptions in the forecast or projection, (3) whether the presentation of the forecast or projection is in conformity with AICPA presentation guidelines, and (4) whether the assumptions in the forecast or projection provide a reasonable basis for the forecast or projection;

I. **"Forecast"** means prospective financial statements that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and changes in financial position, or cash flows that are based on the responsible party's assumptions reflecting conditions it expects to exist and the course of action it expects to take;

J. **"Person"** means any natural person, corporation, partnership, unincorporated association, or other entity;

K. **"Projection"** means prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and changes in financial position or cash flows that are based on the responsible party's assumptions reflecting conditions it expects would exist and the course of action it expects would be taken given such hypothetical assumptions;

L. **"Referral fee"** means compensation for recommending or referring any service of a CPA to any person;

M. **"Review"** means to perform an inquiry and analytical procedures that permit a CPA to determine

whether there is a reasonable basis for expressing limited assurance that there are no material modifications that should be made to financial statements in order for them to be in conformity with generally accepted accounting

principles or, if applicable, with another comprehensive basis of accounting; and

N. "Trade name" means a name used to designate a business enterprise.

---

## ORDER II.

---

IT IS FURTHER ORDERED that AICPA, directly, indirectly, or through any person or other device, in connection with its activities in or affecting commerce, as "commerce" is defined in Section 4 of the Federal Trade Commission Act, shall forthwith cease and desist from:

A. Restricting, regulating, impeding, declaring unethical, advising members against, or interfering with any of the following practices by any CPA:

1. The offering or rendering of professional services for, or the receipt of, a contingent fee by a CPA, provided that AICPA may prohibit the engaging to render or rendering by a CPA for a contingent fee: (a) of professional services for, or the receipt of such a fee from, any person for whom the CPA also performs attest services, during the period of the attest services engagement and the period covered by any historical financial statements involved in such attest services; and (b) for the preparation of original or amended tax returns or claims for tax refunds;
2. The offering or rendering of professional services for, or the receipt of, a disclosed commission by a CPA, provided that the engaging to render or rendering of professional services by a CPA for a commission for, or the receipt of a commission from, any person for whom the CPA also performs attest services may be prohibited by the AICPA during the period of the attest services engagement and the period covered by any historical financial statements involved in such attest services;
3. The payment or acceptance of any disclosed referral fee;
4. The solicitation of any potential client by any means, including direct solicitation;
5. Advertising, including, but not limited to:
  - (a) any self-laudatory or comparative claim;
  - (b) any testimonial or endorsement; and
  - (c) any advertisement not considered by AICPA to be professionally dignified or in good taste; and
6. The use of any trade name;

PROVIDED THAT nothing contained in this order shall prohibit AICPA from formulating, adopting, disseminating,

and enforcing reasonable ethical guidelines governing the conduct of its members with respect to solicitation, advertising or trade names, including unsubstantiated representations, that AICPA reasonably believes would be false or deceptive within the meaning of Section 5 of the Federal Trade Commission Act;

B. Taking or threatening to take formal or informal disciplinary action, or conducting any investigation or inquiry, applying standards in violation of this order;

C. Adopting or maintaining any rule, regulation, interpretation, ethical ruling, concept, policy or course of conduct that is in violation of this order;

D. Inducing, urging, encouraging, or assisting any association of accountants to engage in any act that would violate this order if done by AICPA provided, however, that nothing in this order shall prohibit AICPA from soliciting action by any federal, state or local governmental entity; and

E. Applying or interpreting any other language contained in the Code of Professional Conduct or its successors in a manner that would violate this order;

PROVIDED THAT this order shall not prohibit AICPA from:

(a) suspending membership in AICPA if:

- i. a member's certificate as a CPA or license or permit to practice as such or to practice public accounting is suspended as a disciplinary measure by any governmental entity;
- ii. a member's registration as an investment adviser is suspended by the SEC;
- iii. a member's registration as a broker-dealer is suspended by the SEC or by any state agency acting pursuant to any applicable state law or regulation relating to the issuance, registration, purchase or sale of securities; or
- iv. a member is suspended from practicing before the IRS, but any such suspension by AICPA shall terminate upon reinstatement of any such certificate, license, permit, registration, or authorization to practice; or

(b) terminating membership in AICPA if:

- i. a member's certificate as a CPA or license or

---

permit to practice as such or to practice public accounting is revoked, withdrawn or canceled as a disciplinary measure by any governmental entity;

- ii. a member's registration as an investment adviser is revoked by the SEC;
- iii. a member's registration as a broker-dealer is revoked by the SEC or by any state agency

acting pursuant to any applicable state law or regulation relating to the issuance, registration, purchase or sale of securities;

- iv. a member is subject to a final judgment of conviction for criminal fraud or for a crime punishable by imprisonment for more than one year; or
- v. a member is disbarred from practicing before the IRS.

---

### ORDER III.

---

IT IS FURTHER ORDERED that AICPA shall:

**A.** Distribute a copy of this order and an announcement in the form shown above, within thirty (30) days after this order becomes final, to all personnel, agents, or representatives of AICPA having responsibilities with respect to the subject matter of this order and secure from each such person a signed statement acknowledging receipt of this order and said announcement;

**B.** Distribute by mail a copy of this order and an announcement in the form shown in Announcement (above), within thirty (30) days after this order becomes final, to each of its members and to each state society of certified public accountants;

**C.** Publish this order and an announcement in the form shown in Announcement (above), within sixty (60) days after this order becomes final, in an issue of the "Journal of Accountancy," AICPA's monthly journal, or in any successor publication, in the same type size normally used for articles which are published in the "Journal of Accountancy" or in any successor publication;

**D.** Within ninety (90) days after this order becomes final, publish and distribute to all members of AICPA and to all personnel, agents, or representatives of AICPA having responsibilities with respect to the subject matter of this order revised versions of AICPA's Code of Professional Conduct, Bylaws, concepts of professional ethics, interpretations, ethical rulings, or other policy statements or guidelines of AICPA which (1) delete any material that

is inconsistent with Part II of this order and (2) otherwise comply with this order;

**E.** File with the Federal Trade Commission within sixty (60) days after this order becomes final, one (1) year after this order becomes final, and at such other times as the Federal Trade Commission may by written notice to AICPA request, a report in writing setting forth in detail the manner and form in which it has complied and is complying with this order;

**F.** For a period of five (5) years after this order becomes final, maintain and make available to the Federal Trade Commission staff for inspection and copying, upon reasonable notice, records adequate to describe in detail any action taken in connection with any activity covered by Parts II and III of this order, including any written communications and any summaries of oral communications, and any disciplinary action; and

**G.** Notify the Federal Trade Commission at least thirty (30) days prior to any proposed changes in AICPA, such as dissolution or reorganization resulting in the emergence of a successor corporation or association, or any other change in the corporation or association which may affect compliance obligations arising out of this order.

By the Commission. Commissioners Azcuenaga and Owen dissented.

Donald S. Clark, Secretary

Issued: July 26, 1990

## AICPA Sets Administrative Fees For Quality Reviews and Peer Reviews

The AICPA Quality Review (QR) Program is carried out in 45 jurisdictions by state societies that have elected full involvement in the program. The AICPA will carry out the QR program itself in the seven jurisdictions that have not elected full involvement—Alaska, the District of Columbia, Guam, South Dakota, Utah, the Virgin Islands, and Wyoming. In addition, the AICPA will participate in the process in Hawaii and Nebraska, which have elected partial involvement.

The *Plan to Restructure Professional Standards* recognized that state CPA societies would need to charge fees to defray the administrative costs of the QR program. Firms that are enrolled in the program are expected to pay those fees to remain enrolled.

Now that the state societies have determined what their administrative fees will be, based on costs and conditions in their respective states, **the AICPA has set the fees it should charge for administration in jurisdictions whose societies have not elected full involvement.** The AICPA is also revising the administrative fees for SECPS and PCPS reviews.

The AICPA's objectives were:

- To develop a QR fee structure that is reasonable in relation to both AICPA costs and the fees charged by fully involved state societies.
- To ensure comparability between the administrative fees paid by firms in the QR program and the cost of membership in the Division for CPA Firms.
- To develop a fee structure that keeps the cost of quality review within the general framework outlined in the *Plan*

*to Restructure Professional Standards.*

The fees described below relate to **administration** of the quality review and peer review programs. The actual cost of the review itself is billed separately.

The annual fee is intended to defray the direct and indirect costs of maintaining current information about a firm or sole practitioner. The scheduling fee relates to the selection or approval of a review team. The evaluation fee defrays costs associated with the consideration and acceptance of the results of the review.

The fees for scheduling and evaluation will, of course, be charged only when the firm has its quality review. In states that have elected partial involvement, the AICPA will charge its annual fee and the fee for scheduling or evaluation, as applicable.

The administrative fee structure **for a firm with review or compilation engagements** that will have an off-site review is similar to the schedule presented below, but the aggregate fees for scheduling and evaluation are \$50 lower for a sole practitioner, \$75 lower for a firm with two to 10 professionals, and \$200 lower for a firm with more than 10 professionals.

No administrative fees of any type will be charged by the AICPA to **firms with no audit or accounting practice.**

The scheduling and evaluation fees will be charged on all types of reviews, whether carried out by a committee-appointed review team (a "CART Review"), another firm, or under the auspices of an association of CPA firms.

**Quality Review Administrative Fees**    *The fee structure for firms with audit clients that will have on-site quality reviews follows:*

<i>Size of firm</i>	<i>Annual fee</i>	<i>Scheduling</i>	<i>Evaluation</i>
<b>Sole practitioner with no professional staff</b>	<b>\$ 50</b>	<b>\$ 50</b>	<b>\$150</b>
<b>2 to 10 professionals</b>	<b>\$ 75</b>	<b>\$100</b>	<b>\$150</b>
<b>More than 10 professionals</b>	<b>\$100</b>	<b>\$150</b>	<b>\$250</b>

*continued*



**SECPS and PCPS Administrative Fees** *The fee structure for peer reviews of SECPS and PCPS member firms—including off-site reviews—follows:*

<i>Size of firm</i>	<i>Scheduling</i>	<i>Evaluation</i>
<b>Sole practitioner with no professional staff</b>	<b>\$ 70</b>	<b>\$200</b>
<b>2 to 10 professionals</b>	<b>\$100</b>	<b>\$250</b>
<b>More than 10 professionals</b>	<b>\$150</b>	<b>\$350</b>

As in the case of the Quality Review administrative fees, the scheduling and evaluation fees will be charged on all types of reviews, whether carried out by a committee-appointed review team (a "CART Review"), another firm, or under the auspices of an association of CPA firms. The 10% surcharge now applied to PCPS and SECPS firms that have a CART Review will be discontinued.

The fee structure for firms that have off-site PCPS reviews is similar to the above schedule, but the aggregate fees for scheduling and evaluation are \$50 lower for a sole practitioner, \$100 lower for a firm with 2 to 10 professionals, and \$200 lower for a firm with more than 10 professionals.

No annual administrative fee will be charged to PCPS or SECPS firms, because those firms already pay member dues to those sections. However, the AICPA will assess the sections (not the individual member firms) an annual amount roughly based on \$5 per CPA in all member firms. This formula results in cost parity among the QR, PCPS, and SECPS review programs.

**Effective Date**

The fees described above will become effective with quality and peer reviews commenced on or after Oct. 1.

## U P C O M I N G C O N F E R E N C E S

**The 13th National AICPA Conference on Savings Institutions** is for practitioners, senior financial officers, and government officials dealing with accounting and auditing problems and economic and legislative developments affecting savings institutions. In addition to the two-day program, an optional program will be held on regulatory issues, market valuation techniques, and the impact of securitization on risk-based capital. All participants will receive an advance copy of the exposure draft of the Revised Savings and Loan Audit Guide. Dates and location: Sept. 5-6; optional program, Sept. 7, Grand Hyatt Washington Hotel, Washington, D.C. Registration for the two-day program, \$475; for the optional program, \$60. Recommended CPE credit for the two-day program: 16 hours; for the optional program: 4 hours. For information, call 212/575-6451.

**The AICPA 5th Annual National Conference on Credit Unions** is for accountants and credit union officials seeking an overview of current financial management and control techniques, and an update on accounting and auditing pronouncements and supervisory regulations. Topics will include real estate lending, emerging accounting issues, and fraud loss control. Dates and location: Oct. 4-5, Peabody Hotel, Orlando. Registration: \$475. Recommended CPE credit: 16 hours. For information, call 212/575-6451.

**The 15th Annual AICPA National Conference on Federal Taxes** is for tax practitioners who want to

familiarize themselves with the most significant tax developments of 1990, including tax planning, business and personal planning, and the impact they have on their practices. Dates and locations: Nov. 5-6, Grand Hyatt Washington Hotel, Washington, D.C.; Jan. 7-8, Fairmount Hotel, San Francisco. Registration: \$495. Recommended CPE credit: 16 hours. For information, call 800/242-7269, or 212/575-5696 in New York State.

**The Firm Administrators Conference** is for firm administrators, administrative personnel and managing partners seeking to network and improve their skills. Dates and location: Nov. 6-9, Caesars Palace, Las Vegas. Registration: \$475. Recommended CPE credit: 20 hours. For registration and information, call 800/242-7269, or 212/575-5696 in New York State.

**The AICPA 15th Annual National Conference on Banking** is for practitioners, bank officers, and others interested in an overview of the financial aspects of banks. Topics will include the latest information on loan accounting, the regulatory examination process, real estate appraisals, bank productivity and profitability, and risk-based capital. Dates and location: Nov. 8-9, Grand Hyatt Washington Hotel, Washington, D.C. Registration: \$475. Recommended CPE credit: 16 hours. For information, call 212/575-6451.

## P U B L I C A T I O N S

An audit and accounting guide, **Audits of Providers of Health Care Services** (product number 012422), recommends and describes accounting, auditing, and financial reporting treatment for matters unique to health care entities. It was prepared by the AICPA Health Care Committee. Price: \$20; \$16 for members.

**The Accounting Profession in South Korea** (010127) is the 13th booklet in a series on professional accounting in foreign countries that describes the accounting and auditing standards in South Korea and compares them with those generally accepted in the United States. Price: \$27.50; \$22 to members.

**The Report on Corporate State Tax Administrative Uniformity** (061043) illustrates the differences in how the 50 states deal with the administration of corporate taxation. The report explains such problem areas as interest rates on assessments, refunds and penalties, and recommends solutions. Price: \$5; \$4 for members.

**To order new publications from the AICPA**, write to the AICPA Order Department, CPA 890, P.O. Box 1003, New York, N.Y. 10108-1003. Or call 800/334-6961 or

800/248-0445 in New York State and ask for Operator CPA 890. Prices do not include shipping and handling.

**The Minority Recruitment and Equal Opportunity Committee 1989 Report** provides information on minority employment in accounting firms, placement of minority accounting graduates, and the AICPA scholarship awards to minorities. For a copy, write to Sharon L. Donahue, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

**The Bank Accounting Advisory Series** from the federal Office of the Comptroller of the Currency (OCC) addresses a variety of bank-accounting topics. Written in question-and-answer format, the advisories are not official rules or regulations of the OCC. They are simply interpretations by the Bank Accounting Division of generally accepted accounting principles and bank regulatory accounting. However, national banks that deviate from the interpretations may be required to justify their actions to the OCC. The first issue of the series deals with a variety of topics. Additional issues will be published on emerging accounting topics affecting banks. To subscribe, send a \$125 check payable to the Comptroller of the Currency to OCC, P.O. Box 70004, Chicago, Ill. 60673-0004.

**Conyers to Introduce  
Legislation for CFO**

John Conyers, Jr., (D-Mich.), chairman of the House Government

Operations Committee, will introduce a bill to create a position for a chief financial officer for the United States. Addressing the AICPA's Governmental Accounting and Auditing Conference, Conyers said that draft legislation would soon be prepared. The various government agencies use hundreds of accounting systems.

The director of the federal Office of Management and Budget would serve as the CFO, and a controller or executive director would be appointed to reform federal financial management. The controller would be an accounting professional, appointed for six years.

In the Senate, Sen. John Glenn (D-Ohio) has introduced the Federal Financial Management Improvement Act of 1990, S. 2840, that would establish a position for a CFO in the federal Office of Management and Budget. In the House, Rep. Frank Horton (R-N.Y.) has introduced a similar bill, H.R. 5492, that incorporates many of the recommendations of the AICPA's Task Force on Improving Federal Financial Management.

**AICPA Supports Pension  
Simplification Bill**

The Employee Benefits Simplification Act is a "positive first step in the

process of simplifying the tax rules governing qualified retirement plans," David J. Kautter, chairman of the AICPA Employee Benefits Taxation Committee, told Congress Aug. 3. Testifying before the Senate Finance Subcommittee on Private Retirement Plans and Oversight of the IRS, Kautter said the AICPA supports the bill, S. 2901. He pledged the AICPA's continued support in the effort to simplify pension rules.

Kautter stressed, however, that the AICPA made suggestions to the subcommittee during testimony in March that were not incorporated into S. 2901 and that should be given further consideration. A hearing in the House has not yet been scheduled.

**Congress May Reconsider  
Cash-Versus-Accrual  
Accounting**

One way to raise revenue that is on a long congressional list of "revenue sources" is requiring

service partnerships, including CPA firms, to switch from the cash basis to the accrual basis of accounting for tax purposes. The Tax Reform Act of 1986 required many businesses—but not service partnerships—to make this switch. Indicating interest in the possibility of requiring service partnerships to switch to the accrual basis, the General Accounting Office (GAO) is studying the issue. The GAO's report is expected by Oct. 15.

**SEC Reviewing Impact of  
Accounting Standards  
on Business**

SEC Commissioner Philip R. Lochner, Jr., is heading an SEC review of U.S. accounting rules

and their effects on U.S. businesses. The impact of accounting rules on the competitiveness of U.S. businesses in the international marketplace will be examined. The review will also study whether the SEC could reduce the complexity and costs of U.S. accounting rules without jeopardizing investor protection or federal securities disclosure policies.

**OTS Issues Final Rule on  
Loans to One Borrower**

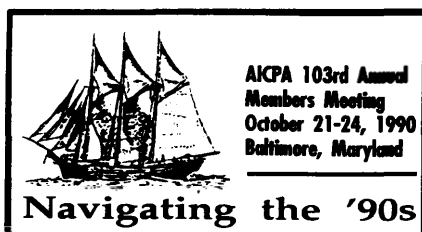
The Office of Thrift Supervision (OTS) has issued a final rule revising

regulations governing limits on loans to one borrower. The revisions make the regulations consistent with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). The final rule includes a definition of "unimpaired capital and unimpaired surplus," an explanation of how to treat intangible assets and net worth certificates, and establishes a transition period for certain well capitalized, qualifying associations. The regulation was effective July 10. For details, see the *Federal Register*, July 10.

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.



# The CPA Letter

## A News Report to Members

---

### What's Inside

Institute Coordinates  
Effort to Help  
Families of Hostages 2

---

New Program  
Matches Educators  
and Businesses 2

---

AICPA Board Agrees to  
Recommend Prohibiting  
Contingent Fees for  
Some Tax Work 3

---

*Special Report:*  
Answers to Questions  
About the New CPE  
Requirements 4

---

GAO Says GAAP  
Helped Delay  
Recognition  
of Bank Losses 8

---

Revised Auditing  
Standards Proposed  
for Small Business  
Investment Companies 8

---

---

### Dingell Proposes Legislation Requiring Reports on Internal Controls

*Also calls for notifying SEC of serious illegal acts*

The House Energy and Commerce Committee is seeking legislation that would require auditors to report on management's written assessment of the company's internal control structure and would require direct notification to the SEC of material illegal acts. Committee Chairman John Dingell (D-Mich.) wants to attach the legislation to the comprehensive Crime Control Act of 1990, H.R. 5269, and is seeking a House vote on the amendment.

Specifically, the legislation would amend the Securities Exchange Act of 1934 to do the following:

1. Require management and auditors to report on the company's internal control structure;
2. Mandate compliance with the requirements of generally accepted auditing standards relative to the auditor's responsibility to identify related party transactions, detect illegal acts, and evaluate a company's ability to continue as a going concern;
3. Require the board of directors to notify the

SEC within one business day when the auditor reports a material illegal act that has not resulted in timely and appropriate remedial action by senior management;

4. Require the auditor to make the notification to the SEC if the board of directors does not do so on time;

5. Limit auditors' liability for reporting illegal acts and, for a period of five years, for reporting on internal controls; and

6. Remove the current exemption under securities laws that permits certain financial institutions to file reports with federal regulators other than with the SEC.

As reported in the August issue of *The CPA Letter*, AICPA representatives, in Congressional testimony, had supported reporting on internal control but opposed requiring auditors to report illegal acts to the SEC. Since then, the AICPA had been working with Dingell's staff to help develop sensible public policies in these highly sensitive and difficult areas. The AICPA has expressed its support of the resulting legislative proposal if it is enacted as a package.

---

### House Judiciary Approves Civil RICO Reform Bill

*Committee also adopts Boucher amendment on S&Ls*

The House Judiciary Committee approved H.R. 5111, which would limit civil uses of the Racketeer Influenced and Corrupt Organizations (RICO) Act. Approved Sept. 18, the bill is the product of more than a year of intensive committee work led by Reps. Rick Boucher (D-Va.), William J. Hughes (D-N.J.), and Bill McCollum (R-Fla.).

The committee adopted a crucial amendment offered by Boucher to limit the "gatekeeper" provision to those cases involving failed savings and loans. The amendment would not apply if an S&L were in trouble but not yet in receivership. The "gatekeeper" provision allows federal judges to dismiss civil RICO claims any time

before final judgment if plaintiffs have been unable to demonstrate "egregious criminal conduct."

Another amendment, offered by Rep. Dan Glickman (D-Kan.), was adopted so that H.R. 5111 would apply only to cases filed six months after enactment of the bill. Thus, potential lawsuits under investigation, but not yet filed, would not be affected.

The committee had sought to develop an alternative approach to the civil RICO reform legislation that had been championed by Boucher for the past six years and that was similar to that of the Senate bill, S. 438, which addresses civil RICO reform. The Senate Judiciary Committee has approved S. 438. The AICPA supports both bills.

---

► ***Institute Coordinates Effort to Help Families of Mideast Hostages***

The AICPA is coordinating an effort with the state CPA societies and Accountants for the Public Interest (API) to provide financial guidance to the U.S. families of hostages in Kuwait and Iraq. With the cooperation of the U.S. State Department, USA-GIVE, a recently formed group, has been providing psychological, legal, and financial guidance to the families. The AICPA will assist USA-GIVE by referring CPAs to families needing help on financial, tax, or other matters.

The AICPA will provide USA-GIVE with a list of state society offices, phone numbers, and names of officials to contact. USA-GIVE will refer families seeking help to the state society office, or to other volunteer accounting groups, which will ask a CPA to work with a hostage's family. To date, more than 50 of the state societies have offered to provide CPAs willing to give their time. For more information, call 800/USA-GIVE.

► ***Educators Paired With Practitioners***

The AICPA's Relations with Educators Division is starting a new internship program that will allow accounting educators to work with accountants in firms and other businesses. Called "The Educators Practicum," the program benefits CPA educators by giving them a first-hand view of practice problems and an increased understanding of the skills needed in the field. In turn, the participating firms and businesses get fully licensed CPAs for specific tasks or projects in such areas as auditing, accounting, and tax. The AICPA will act as a go-between, providing the practitioners with the names of interested and qualified CPAs. The assignments may last between a few weeks and several months. Logistical matters and compensation are to be determined by the organization and the educator. For information and a registration form, call Stephen J. Anspacher at the AICPA Relations with Educators Division, 212/575-8910.

► ***CPA Exam Graders Needed***

The AICPA's Examinations Division is seeking CPAs and JDs to assist in grading the November 1990 Uniform CPA Examination. The grading period begins two to three weeks after the exam is given and continues for about six weeks. Graders must provide a minimum of three seven-hour days each week, excluding Sundays. All grading is done at the AICPA's offices in New York. For information, write to the AICPA, Examinations Division, 1211 Avenue of the Americas, New York, N.Y. 10036, or call 212/575-3874.

► ***AICPA Supports Improvements in Federal Financial Practices***

The AICPA supports proposed improvements in federal financial practices, but testified that any legislation must include four elements, namely: 1) a federal CFO; 2) CFOs in each agency; 3) annual financial statements from all government agencies; and 4) annual audits of those statements.

Harold I. Steinberg, a member of the AICPA's Special Task Force on Improving Federal Financial Management, testified before the House Government Operations Committee Sept. 18. The committee was considering a discussion draft and a bill, H.R. 5492, that was introduced in the House by Rep. Frank Horton (R-N.Y.). Horton's bill incorporates many of the recommendations of the AICPA's task force.

► ***Wyatt Named Chairman of International Accounting Standards Committee***

Arthur R. Wyatt, a partner of Arthur Andersen & Co. who had previously served on the Financial Accounting Standards Board, has been named chairman of the International Accounting Standards Committee.

Ronald J. Murray, director of accounting, auditing and SEC consulting in the national office of Coopers & Lybrand, will replace Wyatt as the AICPA representative on the U.S. delegation to the committee. Both will serve for 2½ years. A private-sector organization founded in 1973, the IASC works toward the international harmonization of accounting standards.

► ***Life Insurance Trust Passes \$60 Billion Mark***

Life insurance in force under the AICPA's CPA Plan and Group Insurance Plan has increased by about \$5 billion since Jan. 1, bringing the total coverage in force to more than \$60 billion. Only about 2% of the U.S. life insurance companies have more volume in force, according to leading industry publications.

The maximum amounts of life insurance available are \$750,000 under the CPA Plan for individual CPAs, and \$200,000 under the Group Insurance Plan for public accounting firms.

Invitations and other literature about the programs were mailed recently to AICPA members. Any member who did not receive the brochures or who wants more information may write to the plan agent: Rollins Burdick Hunter Co., 605 Third Ave., New York, N.Y. 10158, or call 800/223-7473, or, in New York State, 212/973-6200. Ask for extension series 431.

---

## Board Agrees to Recommend Prohibiting Contingent Fees for Some Tax Work

During its meeting on Sept. 6 and 7, the AICPA Board of Directors agreed to recommend prohibiting contingent fees for preparing original or amended tax returns and tax-refund claims. When the Federal Trade Commission issued its final order in its investigation into the AICPA's rules of conduct, it allowed the Institute to prohibit contingent fees for such tax work. The recommendation will now be considered by the governing Council.

The board also heard a report from General Counsel Donald J. Schneeman that the Institute has begun notifying its members and those involved with administering the AICPA Code of Ethics about changes in the rules and interpretations on commissions and contingent fees, and interpretations of the advertising rule. (The final order was published in *The CPA Letter*, August.)

In other actions, the board:

- Received a report on progress made in developing a joint guide with the National Association of State Boards of Accountancy for states that are considering

### AICPA Disciplinary Actions

**Members expelled**—Under the AICPA bylaws, membership in the Institute shall be terminated without a hearing if the secretary of the Institute receives a final judgment of conviction imposed on any member for a crime punishable by imprisonment for more than one year. The following members have had their memberships terminated under this automatic disciplinary bylaw provision:

- Bryan D. Zimmerman of Boise, Idaho, on March 13, 1990, following his conviction of grand theft by unauthorized transfer of interest, and of tax evasion.
- Thomas F. Karlsen of Phoenix, Ariz., on May 2, 1990, following his conviction of mail fraud.
- Anthony Guariglia of Jericho, N.Y., on May 9, 1990, following his conviction of conspiracy to bribe, and of bribing federal public officials; and of devising a scheme to defraud and of defrauding his employer, Wedtech Corp., of which he was president and chief operating officer.
- Joseph Goldenberg of Cherry Hill, N.J., on May 30, 1990, following his conviction of aiding and abetting in filing a false tax return, and of conspiracy to defraud the United States.
- Mark A. Roth of Livingston, N.J., on June 21, 1990, following his conviction of "Conspiracy to defraud the United States by obstructing and defeating the functions of the IRS in the collection of income taxes," and "aid[ing] and assist[ing] in the preparation and presentation to the IRS of a false Income Tax return."

In addition, the following members were expelled on July 19, 1990, under the automatic disciplinary provisions of the Institute's bylaws, upon the denial by an ad

hoc committee of the Joint Trial Board of their requests that the automatic disciplinary provision of the bylaws not apply in their circumstances:

- Decided to recommend that Council approve a mail ballot of the membership clarifying the applicability of Rule 301, Confidential Client Information.
- Voted to recommend that Council adopt a policy statement to provide that CPA candidates complete their education requirements before applying to take the Uniform CPA Examination.
- Endorsed a position statement of the Education Executive Committee and a recommendation of the Accounting Education Change Commission calling for a redirected focus for higher education to encourage a greater emphasis on teaching and a better balance between applied and empirical research.
- Voted to request that Council establish minimum insurance or capital requirements for members electing to practice in limited liability corporations. At a meeting in July, the board voted to recommend a vote of the membership to permit practice in such corporations.

hoc committee of the Joint Trial Board of their requests that the automatic disciplinary provision of the bylaws not apply in their circumstances:

- David J. Henderson of Narragansett, R.I., following the revocation of his CPA certificate by the Rhode Island Board of Accountancy. The board revoked Henderson's certificate following charges made against him by the Securities and Exchange Commission of a violation of the Insider Trading Sanctions Act of 1984 and payment by him to the SEC of a civil penalty in excess of \$3,000.
- Owen G. Hunsaker of Honeyville, Utah, following his conviction of theft in the First District Court of Box Elder County, Utah.
- Jack W. Nistendirk of Huntington, W.Va., following his conviction in a U.S. District Court of "Conspiracy, possession with intent to distribute cocaine and interstate travel with intent to promote, manage, establish, carry on, or facilitate an unlawful activity."
- James E. Stenseth of Williston, N.D., following the revocation of his CPA certificate by the North Dakota State Board of Public Accountancy for continuing professional education delinquency.

### Public Meeting Notice

**The Quality Review Executive Committee** will consider the following items when it meets Oct. 8-9 at the Le Meridien in Boston: Oct. 8, p.m.: AICPA/NASBA State Oversight Board; procedures for off-site reviews; task force structure for 1991; inspection guidelines; Oct. 9, a.m.: Definition of "associations of CPA firms"; 1991 annual committee chairmen's meeting.

## Answers to Common Questions About the New CPE Requirements

*Are you wondering what's the best way to meet the new continuing professional education requirements? If so, the following are answers to some of the most frequently asked questions collected by the CPE Division.*

### FOR ALL MEMBERS

#### ***Briefly, what are the new requirements?***

Effective this year, *all members* (except retirees) must meet new CPE requirements to continue their AICPA memberships. The new requirements mean:

- Members not in public practice must complete 60 hours of CPE during the three years ending Dec. 31, 1992, including at least 10 hours each year. In subsequent reporting periods, the requirement will be 90 hours, including at least 15 hours annually. Members who join after Jan. 1, 1990, must meet the 90-hour requirement.
- Members in public practice must complete 120 hours of CPE in each three-year reporting period, including at least 20 hours each year.

#### ***Will I need to send a detailed report of my completed CPE to the AICPA?***

No. Detailed reporting will not be required. A check-off on the annual dues statement will be used. The first report of compliance—for the 1990 calendar year—should be made on dues statements in July 1991.

You should, however, maintain records of your completed CPE in case you are asked for substantiation. For each CPE program, you should document the sponsor, title or description of the content, date, location, and the number of CPE contact hours. (A contact hour is 50 minutes of continuous participation in a group program.) Maintain the records for five years.

#### ***Are there any exceptions to the new CPE requirements? If so, how do I request one?***

Members who are retired are automatically exempt from the CPE requirements. For purposes of the CPE requirements, "retired" means a member has obtained retired status for paying AICPA dues. The retirement status applies to the full year in which the member retires.

Unless retired, all AICPA members, even retired individuals working part-time, must comply with the AICPA's CPE requirements.

Members may request a waiver if they are prohibited from fulfilling the CPE requirements because of foreign residency, health, or military service. Other reasons may qualify. All requests for exceptions must be submitted in writing to the AICPA, Membership Department, 1211 Avenue of the Americas, New York, N.Y. 10036.

#### ***I am currently completing courses for an MBA. A colleague is attending law school. Do such courses qualify for CPE?***

Yes. As long as the courses enhance your professional competence, they qualify for CPE credit. One semester credit hour equals 15 CPE credit hours. A three-credit-hour semester course qualifies for 45 CPE credit hours.

#### ***I plan to quit working so I can stay home with my children. Since I will not be earning any income, I am concerned about my ability to meet the CPE requirements.***

Unless you have "retired" you should consider yourself a member not in public practice for purposes of applying the CPE requirement.

Should you return to public practice you would begin the higher number of CPE credit hours in the year you return to work.

Should this occur between Jan. 1, 1990 and Dec. 31, 1992, the transition rules apply. (Transition rules apply to members who reinstate before Jan. 1, 1993. See the *Policies for the CPE Membership Requirement*, mailed with the February issue of the *Journal of Accountancy*. To get a copy, see, "For More Information," Page 5.)

#### ***My firm provides an extensive in-house training program. Will these programs qualify for CPE credit?***

Yes. Members have wide latitude in selecting programs suitable to their professional activities. For example, let's say that you are a government CPA who wants to attend a management seminar. Or, that you work in the marketing department of a large corporation and your employer wants you to attend a marketing conference. Or, that you are a college professor planning to attend an accounting educators' conference so you can take seminars in instructional design. All of these courses qualify for CPE credit.

Acceptable CPE must meet two requirements:

1. It must enhance your professional competence. The underlying principle of CPE is that all CPE programs should contribute to a member's professional competence.
2. It must be a formal program of learning, which means it must be designed and intended primarily as an educational activity.

#### ***What kind of programs qualify for CPE credit?***

Members may participate in CPE programs sponsored by many organizations, including the AICPA, state societies of CPAs, other professional associations, colleges and universities, and their own firms and companies. Activities that are not considered acceptable CPE include getting on-the-job training, reading professional publications, and serving on committees.

Keep in mind that state licensing authorities and state societies may have CPE requirements that differ from the AICPA's requirements. All members should review the requirements of their state boards of accountancy or societies to ensure compliance.

## **The Educators Practicum**

### **An Important Opportunity for Accounting Educators**

In early August, the Relations with Educators Division initiated the *Educators Practicum*, an internship program through which accounting educators and practicing accountants can share in each other's knowledge, learn from each other's experience, and benefit from each other's abilities.

The *Practicum* is the result of a proposal by the Accounting Educators Subcommittee, which sought to create a program to provide full-time faculty members with an occasional opportunity to work with firms and other businesses in the practice of accounting, and thus to alleviate some of the distance between the academic and "real world" perception of accounting issues, applications and approaches.

Some areas in which *Practicum* participants could contribute include the establishment of internal and organizational audit functions, the development of in-house CPE programs, and service on quality review teams.

Some of the expected benefits of this program include:

- Educators will get a first-hand view of practice problems and opportunities;
- Curricula will be enhanced by the addition of "real world" examples based on actual experiences;
- Firms and other organizations will benefit from the objective, independent and qualified input of educators;
- A consulting relationship might be developed between the organization and the educator;
- The *Practicum* will help enable educators to meet the "professional development" requirement of accrediting bodies.

*(continued on page 3)*

## **Developments in Accounting Education**

*by Harold Q. Langenderfer, CPA*

*(In recent months, a great deal of attention has been focused on the content, structure, and shortcomings in accounting education in general. This article, by the Chairman of the AICPA Education Executive Committee, attempts to put the issues in perspective and to propose a more proactive role in supporting changes in accounting education. Dr. Langenderfer, whose three-year term as Executive Committee Chair ends in October, is KPMG Peat Marwick Professor at the University of North Carolina Business School, Chapel Hill.)*

In the past year or more, the Education Executive Committee of the AICPA has been dealing with a variety of issues related to the proposed changes in accounting education. These have been triggered by the AAA Bedford Committee report, the AICPA vote in favor of a 150-hour requirement to be a member of the AICPA after the year 2000, and the position paper issued by the largest accounting firms which led to the creation of the AAA Accounting Education Change Commission (AECC).

### **Ongoing Changes to the Uniform CPA Examination**

The AICPA Board of Examiners and its CPA Examination Change Implementation Task Force, with the Examinations Division staff, are deeply involved in major changes to the Uniform CPA Examination. The fully-revised version of the examination will be used for the first time at the May 1994 administration, but decisions are being made and new procedures implemented in the interim.

The new, 15½-hour examination consists of four separately scored sections, which will focus on the following areas (see table on page 6):

1. Auditing (to be administered on Wednesday; 4½ hours).
2. Business Law & Professional Responsibility (Wednesday; 3 hours).
3. Accounting & Reporting—taxation, managerial, and governmental and not-for-profit organizations (Thursday; 3½ hours).
4. Financial Accounting & Reporting—Business Enterprises (Thursday; 4½ hours).

The first section, Financial Accounting and Reporting—Business

*(continued on page 6)*

Underlying all of these initiatives is the assumption that accounting education needs to change in order to do a better job of preparing accounting students to perform as professionals in the 21st century in a world that is becoming smaller, more complex, and more dynamic. A second assumption is that change will not come easily because (1) there is a complex infrastructure in place in educational institutions and (2) there are a significant number of organizations that have a stake in the outcome of proposed changes, and therefore must be convinced as to what changes are needed and how each organization can contribute to helping with implementation of the changes.

Different groups view the need for change in different ways, but there seems to be general agreement that the academic establishment must make fundamental changes in the content of the curriculum and in the way accounting education is delivered if accounting students are to be prepared to be effective professional accountants in the 21st century. Fundamentally, the changes need to include a greater emphasis on teaching and a better balance between applied and empirical research in order to put a greater focus on the students' needs for an effective

*(continued on page 4)*



# Special Committee Studies Issues in Verbal Skills Testing

In response to a growing concern that many new CPAs have poor verbal skills, a special committee was recently appointed to identify and evaluate methods for testing communications skills on the Uniform CPA Examination and to cooperate with the Board of Examiners in implementing the best of those methods. [The Board of Examiners is committed to assessing writing skills on selected free response/essay questions in three sections of the examination (auditing, business law and professional responsibility, and financial accounting and reporting) beginning in 1994.] The committee focused on four issues:

## What are verbal skills?

The special committee defined verbal skills as "those skills necessary for effectively communicating information related to the practice of accounting." Specific skills identified include writing in a persuasive, organized, concise and clear manner; editing to achieve this end; and using spelling, grammar, and accounting terminology correctly. (The committee realized that it would not be feasible to determine oral skills on the Uniform CPA Exam.)

## Is the assessment of verbal skills a public interest issue?

Based on solicited comments from AICPA members, the National Association of State Boards of Accountancy (NASBA), and the AICPA/NASBA Joint Coordinating Committee, the committee stated emphatically that verbal skills

competency is important for practice and is therefore in the public interest.

## What is the best method for assessing verbal skills?

Dr. Steven Klein, an expert in written and performance assessment on state bar examinations, provided the committee with an overview of verbal skills testing. Four models were presented to the committee:

**Model A:** Separate Examination/Separate Uniform CPA Examination Section. (This model focuses on the development of a specific test of verbal skills, independent of technical knowledge, administered before, after, or as a separate part of the uniform CPA examination.)

**Model B:** Uniform CPA Examination - Separate Scoring. (This model calls for the measurement and grading of verbal skills based on the examination's free response and essay questions. Separate grades would be given for technical knowledge and verbal skills.)

**Model C:** Uniform CPA Examination - Combined Scoring. (Focusing again on the examination's free response and essay questions, CPA graders could assign a single grade for both technical knowledge and verbal skills on selected questions.)

**Model D:** Optional examination. (This model calls for the development of a specific test to assess student verbal skills which would be administered by colleges and universities or by employers in making hiring decisions or diagnosing employees' development needs.)

(continued on back page)

## The AICPA Library

### A Valuable Resource for Educators

Have you called the AICPA library lately? Have you *thought* of calling? Did you know that the AICPA library is a toll-free telephone call away? (Call (800) 233-4155, or (800) 522-5434 in New York State.)

The library handles thousands of requests annually. Many educators make use of this service, requesting materials to assist in preparing courses, materials to help plan speeches and presentations to professional organizations, or information on job opportunities for students

and graduates. The AICPA library responds by lending specific titles, such as textbooks or AICPA and FASB standards, or by providing copies of journal articles, and job descriptions.

The library staff also assists with online database searching of its own database, *Accountants' Index*, which is on the ORBIT Search Service, or other databases available on the Dialog, Dow Jones or Mead systems. Educators who have access to the *Accountants' Index* on line or in print should remember that the AICPA library retains the books and journals listed in the *Index*, and you may borrow or request photocopies.

If your institution does not have the earlier

volumes of the *Index*, which was first published in 1920, the Institute Library can assist with research of older materials. You also have access to very current publications in the AICPA library, including domestic and international annual reports collections. The monthly *AICPA Acquisitions List*, available from the Library, can help you keep your library up-to-date.

The AICPA library is one of the most comprehensive accounting libraries in the United States and it is open to the public for research use. In addition to answering over 30,000 telephone requests a year, the staff assists 12,000 visitors. Members may ask for research assistance, bib-

liographies, photocopies, and borrow books as well.

For more information, you may call and request a free copy of *AICPA Library Guide* and a copy of our price schedule. We are waiting to hear from you!

**Members of the AICPA's 150-Hour Education Requirement Committee are available to make presentations on the 150-hour education requirement and implementation strategies. For information, contact Beatrice Sanders, Director, Relations with Educators, AICPA, 1211 Avenue of the Americas, New York, NY 10036; telephone (212) 575-6434.**

# Recruiting News

In late August, the AICPA Relations with Educators Division released a new recruiting videotape entitled *A License to Succeed*. Designed for college students, the 13-minute videotape captures the opportunities and challenges facing four young Certified Public Accountants in their various career paths. The CPAs profiled in the video work in public accounting, in both large and small firms; in industry, at the Loew's Corporation; and in government, at the Securities and Exchange Commission.

The video enables students to learn about the accounting profession by profiling its "real world" experiences. Supplementing the video is a brochure detailing the educational experience requirements necessary to becoming a CPA. Copies of the tape and brochure may be obtained from Modern Talking Pictures; for information, call (800) 243-6877.

In a related development, the Accounting Careers Subcommittee has launched a research study to explore the career awareness level of high school and college students; the Institute will be working with the Gallup Organization in attempting to discover the points at which students make critical career decisions. The subcommittee is also interested in determining current student perceptions toward accounting.

The results of this project will be used in developing programs to dispel misperceptions about accounting, and to convey the accurate perception that accounting is a challenging and rewarding career option. The survey will be completed by January 1991; a final report will be issued as soon thereafter as possible.

Recruiting efforts should be enhanced by the fact that career opportunities in public accounting remain very strong for recent college graduates, as reported in the 1990 edition of *The Supply of Accounting Graduates and the*

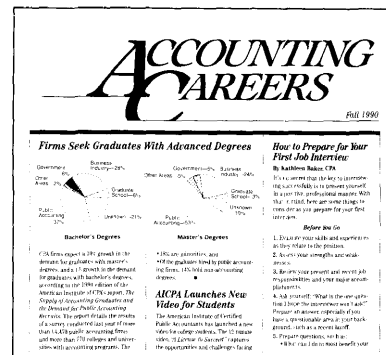
*Demand for Public Accounting Recruits*, published last spring by the AICPA.

The survey, conducted in the fall of 1989, gathered input from over 14,400 public accounting firms and over 770 colleges and universities with accounting programs. The survey employed a new methodology to estimate supply and demand, enabling the Institute to broaden the study and report more comprehensive information on trends in the profession.

Highlights of the 1990 survey include:

- Over 57,000 bachelors and masters degrees in accounting were awarded in 1988-89, and a 3% increase is projected for 1989-90;
- Graduate degrees made up approximately 10% of all accounting degrees awarded;
- Women made up 29% of the accounting graduates; minorities made up 18%;
- Of the graduates hired by public accounting firms, 14% hold non-accounting degrees.

Copies of the 1990 supply and demand report were distributed to participating accounting departments; however, you may request your own copy free of charge by sending a postcard to the AICPA Order Department, P.O. Box 1003, New York, NY 10108-1003. (See related article on page 6.)



*Be on the lookout for Accounting Careers, a new newsletter for students published by your state society with assistance from the AICPA.*

## Luca Pacioli: An Unsung Hero

The Pacioli Society has recently released a half-hour documentary videotape on the life and contributions of Luca Pacioli. Conceived as part of the celebration of the 500th anniversary of Pacioli's *Summa*, this videotape was shot in Italy using sites, locations, and language evocative of the highlights of Pacioli's career. Produced with partial funding from the AICPA by Drs. William Weis and David Tinius of Seattle University, the Pacioli documentary offers a visually stimulating and intellectually fresh view of one of the Renaissance's most important contributors, and in so doing illuminates the cultural and intellectual roots of the accounting profession. For additional information, contact the

Pacioli Society, in care of the Albers School of Business, Seattle University, Seattle, Washington 98122.

## Teaching Notes

A recent Harvard University study suggests that small changes in teaching methods can lead to dramatic improvement in students' learning. For example, the research indicates that students do best in courses with frequent evaluative "checkpoints" (tests, quizzes, exams) and that they learn more by studying in small groups rather than alone. The report, a first summary of *The Harvard Assessment Seminars: Explorations with Student and Faculty About Teaching, Learning, and Student Life*, is available from the author of the study, Professor Richard

Light. To obtain a copy, call Dr. Light at (617) 495-3401.

## Educators Practicum

(continued from front page)

The Institute will act as clearinghouse for the *Practicum*, matching the names of interested organizations and educators. Participation is, of course, voluntary in all respects, and all arrangements between the parties will be made by those directly involved.

This program offers a unique opportunity for accounting educators to maintain involvement in the profession. For more information, including a brochure and registration card, please contact the Relations with Educators Division, (212) 575-6358.

# Accounting Education

(continued from front page)

education in relation to the faculty's need for an acceptable publication record to achieve promotion. The past 30 years has seen a dramatic increase in the emphasis placed on empirical and theoretical research



Harold Q. Langenderfer

research in the academic promotion and tenure process. This increased research emphasis has been at the expense of teaching and other scholarly activities, and thus has become a major concern to groups outside and inside the university system. Elements of the university infrastructure that may inhibit change relate to the promotion and tenure standards, attitudes about the role of professional education, and the extent of the need for a research image, to mention a few.

If we accept the premise that changes in accounting education are needed, the next question is, how do we cause these changes to take place. What are the catalysts for change? Clearly, the problem is complicated by the number of important stakeholders who will be affected by the changes. Key among these are the universities (administrators and faculty), the accounting profession (as represented by the AICPA,

NAA, FEI, AAA, NASBA, IIA, state societies, and state boards of accountancy), students (as represented by Beta Alpha Psi), and accrediting bodies (principally the AACSB). It is not clear that all of these stakeholders are convinced that changes are needed, or if they are needed, what they should be. Some of the issues that need to be resolved are:

- Do management accountants need more and different education than they have received previously? Should the education of management accountants be the same or different from the education of public accountants?
- Does the accreditation process have any significant impact on the mission of a university? If so, how does it impact and what should accounting organizations do to try to influence the standards and the effect they may have on influencing changes in accounting education?
- Does the CPA exam unduly influence the accounting curriculum as many believe? If so, how does one go about changing the state laws of 54 jurisdictions to help mitigate the impact of the CPA exam on the curriculum?

The Accounting Education Change Commission is charged with being the catalyst for change, but it cannot accomplish its mission without the support and help of most of the stakeholders listed above. How can that support be galvanized when fundamental issues such as those listed above have not

been resolved and/or accounting organizations are not in agreement as to the solutions?

At the present time, the Change Commission is addressing a variety of issues related to accounting education, with considerable emphasis on curriculum development and teaching methods. Additionally, it is concerned with the impact of the CPA exam on the curriculum, the effect of the accreditation process in encouraging change, and the development of faculty to implement changes in the classroom. The Change Commission can suggest and promote changes, but it cannot, by itself, cause the changes to happen. From the point of view of the AICPA Education Executive Committee, the accounting profession should take the lead in helping to "pave the way" for success in making the needed changes.

But who in the accounting profession should take the lead? The easy way out is to let the "other guy" do it, but the present thinking of the AICPA Education Executive Committee is that it is time for the AICPA to stand up and be counted. The history of accounting education for the past 50 years suggests that the accounting profession, broadly viewed, consciously did not involve itself with accounting education matters, and let

educational institutions run their own "show." It is now clear that the "show" has not been responsive to needed educational modifications to keep pace with the dynamic changes in the profession for such reasons as inertia, a bureaucratic infrastructure, a lack of communication between faculty and the profession, and a variety of other reasons. Therefore, the accounting profession can no longer leave accounting education to academics, just as society cannot leave war entirely to generals. On the basis of this type of thinking, the Education Executive Committee has decided that the AICPA, as the preeminent voice of the profession, should take the lead in supporting the objectives of the Accounting Education Change Commission in its efforts to identify change and marshal the appropriate forces to cause change to occur. Accordingly, the Committee has developed a position paper, which has been approved by the AICPA Board and is going to Council in October, containing a series of action plans consistent with the Change Commission's call for a redirected focus in higher education and placing renewed emphasis on teaching and curriculum and course development, (See related article on page 5).

(continued on back page)

***The AICPA's Examinations Division is seeking CPAs and JDs to assist in grading the November 1990 Uniform CPA Examination. The grading period begins two to three weeks after the exam is given and continues for about six weeks. Graders must provide a minimum of three seven-hour days each week, excluding Sundays. All grading is done at the AICPA office in New York City. For additional information and an application, write to the AICPA Examinations Division, 1211 Avenue of the Americas, New York, NY 10036; or call (212) 575-3874.***

# Change Commission Urges Top Priority for Teaching in Higher Education

Meeting at the recent American Accounting Association Annual Meeting in Toronto, the Accounting Education Change Commission issued a strongly worded position statement calling for "a redirected focus for higher education—giving top priority to teaching and curriculum and course development." To support this position, the AECC goes on to suggest that the academic reward system be changed to reflect this priority. Noting that such a shift will "require major changes in the recruitment, development, and evaluation of faculty members," the Commission document states that any ensuing controversy will be secondary in importance to the "vital" need for an increased emphasis on teaching and curriculum development for accounting education.

The document, which was released in final version on August 15, raises the Commission's concern that present reward structures in higher education do not treat teaching or curricular development activities with the same degree of importance as they do other faculty pursuits. The paper goes on to state that "the so-called 'publish or perish' standard for promotion and tenure has created an environment that gives short shrift to virtually all nonresearch aspects of the educational process." The AECC document calls for the development of an environment in which teaching and related activities, including curriculum design, course development, and

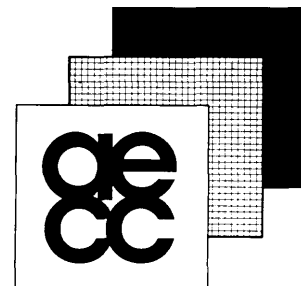
student interaction, are reviewed and rewarded in the promotion and tenure process.

Stating that its position places the AECC in agreement with many other organizations urging that teaching and curricular development be given priority, the Commission paper calls on universities to study the ways in which faculty and other resources are allocated. The document states that "we are experiencing dramatic change in this 'information age' and must adapt to the rapid pace in technology. Our ability to retain a competitive and viable society depends on our ability to educate. Accordingly, the importance of effective teaching and innovative curriculum and course development can not be overemphasized."

The Change Commission calls on major supporters of higher education to exercise influence in "motivating change by requiring that substantial resources be directed toward the support of teaching and curriculum and course development."

The document closes by encouraging all those interested in the future of higher education to participate in a redefinition of priorities and the placement of a "renewed emphasis on teaching and curriculum and course development."

The AECC document has received the approval of the AAA, the FEI, and the AICPA.



## AICPA Awards Fifteen Doctoral Fellowships

The Institute's ongoing effort to encourage qualified persons to enter into and complete doctoral programs in accounting and to become accounting educators is partially expressed through its program of financial assistance to doctoral candidates in accounting. Now in its fifth year, this program provides grants of \$5,000 each to 15 candidates each year; the grants are renewable for an additional two years.

For the 1990 round, 86 applications were received, and the following 15 outstanding students were selected as grant recipients:

**Tammy J. Atwood, CPA;** University of Illinois  
**Mark S. Beasley, CPA;** Michigan State University

**Karen W. Braun, CPA;** University of Arizona

**Anthony H. Catanach Jr., CPA;** Arizona State University

**Paul M. Clikeman, CPA;** University of Wisconsin at Madison

**Leslie J. Dunlap, CPA;** University of Oklahoma

**Craig R. Ehlen, CPA;** Southern Illinois University

**Audrey A. Gramling, CPA;** University of Arizona

**Dana Hermanson, CPA;** University of Wisconsin at Madison

**Richard W. Houston, CPA;** Arizona State University

**Denise A. Mummert, CPA;** Georgia State University

**Catherine M. Schrand, CPA;** University of Chicago

**Kathleen A. Springer, CPA;** University of Missouri-Columbia

**Daniel L. Wolf, CPA;** Duke University

**Rebecca L. Wright, CPA;** Arizona State University

In addition, continued funding was provided for those students awarded grants last year who requested renewal.

The Accounting Educators Subcommittee also renamed this program the "AICPA Doctoral Fellowships Program," and changed the regulations governing applications to require that applicants possess the CPA certificate at the time of application. In addition, recipients are screened on the basis of past and present academic performance, professional accounting experience, and United States citizenship.

Additional information about the program and applications for next year's awards, which will be made in the spring of 1991, may be obtained from the AICPA's Relations with Educators Division. Applicants should note that the number of candidates has increased steadily each year, and a growing number have had two or more years of professional accounting experience prior to considering an academic career.

## CPA Exam (continued from front page)

Enterprises, will test candidates' knowledge of generally accepted accounting principles for business enterprises. The section on Accounting & Reporting—Taxation, Managerial, and Governmental and Not-for-Profit Organizations, will test candidates' knowledge of federal taxation, managerial accounting, and accounting for governmental and not-for-profit organizations. The Auditing section will test knowledge of generally accepted auditing standards and procedures and related topics. Finally, the Business Law

Section	Formats		
	4-Option Multiple Choice	Other Objective Answer Formats	Free Response
Auditing	50%—60%	20%—30%	20%—30%
Business Law & Professional Responsibilities	50%—60%	20%—30%	20%—30%
Accounting & Reporting — Taxation, Managerial, and Govt. and Not-for-Profit Orgs.	50%—60%	40%—50%	—
Financial Accounting & Reporting — Business Enterprises	50%—60%	20%—30%	20%—30%

### *New Sections of CPA Exam, Beginning May 1994*

and Professional Responsibility section will test candidates' knowledge of the legal implications of business transactions, particularly as related to accounting and auditing, and candidates' knowledge of the CPA's professional responsibilities to the public and the profession. In addition, writing skills will be assessed in selected parts of the examination. (See related article on page 2.)

Another major change allows candidates to use hand-held calculators for the Financial Accounting & Reporting and the Accounting & Reporting sections of the examination.

These changes have been approved by the Board of Examiners and endorsed by the AICPA Board of Directors; the NASBA Board of Directors as well as its CPA Examination Review Board have also approved. They will become effective with the May 1994 examination. The AICPA Board of Examiners is responsible for the preparation and advisory grading of the Uniform CPA Examination; boards of accountancy administer the examination and issue CPA certificates and licenses to individuals who meet their jurisdictions' requirements. All jurisdictions require candidates to pass the Uniform CPA Examination to obtain a certificate or license.

## Classroom Assessment

The movement to assess student learning continues to gain momentum, and many colleges are focusing on an approach called "classroom assessment." Classroom assessment techniques allow individual faculty members to evaluate their own teaching and their students' learning and to make adjustments based on what they discover. Some techniques for classroom assessment were developed by K. Patricia Cross, Professor of Higher Education at the University of California at Berkeley and director of the

Classroom Research Project. The process can be as simple as asking students "What is the muddiest thing you have heard so far today?" or assigning students to write a one-minute paper at the end of a class session discussing the most important thing they learned in class that day. The use of these and other techniques is spreading, and the Berkeley project has developed handbooks and sponsored workshops to teach faculty members how to do classroom research and assessment on their own. More information can be obtained from Dr. Cross at U.C. Berkeley.

## Accounting Careers Conference

The second annual AICPA/State Society Accounting Careers Conference was held on September 11 in Orlando, Florida. Highlights of the meeting included the premiere viewing of the Institute's newest recruiting video for college students, *A License to Succeed*, and the introduction of two new AICPA Model Programs: the Accounting Ties Program, and the National Honor Society Program.

The National Honor Society Recruiting Program targets high school national honor society members at high schools whose student body is largely in a college-prep program. The program relies on participation by college accounting majors (preferably Beta Alpha Psi members) and young CPAs. One or both of these individuals should be graduates of the targeted high school, and will therefore be able to establish the rapport to create an opportunity for a career presentation for honor society members. The relative youth of the presenters should encourage an informal atmosphere where professional career experience can be easily shared with students. The program is based on a model developed and tested in Ohio.

Accounting Ties is a one-on-one program involving a CPA member of the state society in which the targeted college or university exists, and an accounting major at that school. The program will promote the profession to the accounting student and improve his or her opportunity for success by providing increased job and career awareness, summer job assistance, preparation for interviews and career decisions, and help with academic problems. The program will also encourage talented future CPAs to thoroughly consider career opportunities available within the state. This program is based on a model developed and tested in Iowa.

Additional presentations were made by Accounting Education Change Commission member A. Marvin Strait, who spoke on the AECC's activities and the impact of those activities on the future of the accounting profession. Break-out sessions permitted state society representatives to discuss the new programs and to react to the videotape and the current AICPA research study on career selection patterns among high school and college students.

*Please let us know if you have any thoughts on items that you feel should (or should not) be included in this newsletter. For example, would a "technical update" section, listing recent pronouncements, be of use here, or would it be repetitive of information you regularly find elsewhere? Your opinion matters—please write or call the Relations with Educators Division at (212) 575-6358.*

# The Search for Publications of Interest: Two Books that Address Program Assessment

As America's colleges and universities begin the arduous task of self-study that will propel them through the necessary evolution into the types of institutions that will meet the changing needs of society and students in the next century, accounting education finds itself in the forefront. The substantial amount of effort and thinking that has gone into development and change in accounting education, beginning with the Bedford Committee Report and continuing through the ongoing work of the Accounting Education Change Commission, puts our field several steps ahead of others in the process.

Nonetheless, the process has just begun. The seminal work now underway on a number of campuses, including those which have received support from the Change Commission, will, in all likelihood, produce more questions than answers. As accounting faculties at colleges and universities begin to consider their own needs, issues of education research and program review will be among the first to be considered.

In their search for practical assistance in approaching this daunting task, members of accounting faculties might turn to two new books on the subject. The first of these, *Successful Program Review* (Jossey-Bass, 1990; 128 pp, \$20.95) provides practical information on all aspects of the program review process, from defining the specific roles and functions of faculty, administrators, support staff, and others in the review process,

to evaluating the effectiveness of an existing program review procedure. The authors, Robert J. Barak and Barbara E. Breier, have produced an extremely concise and useful hands-on resource which offers step-by-step guidance for designing, implementing, and evaluating successful program reviews on any college or university campus. The key purposes, scope and benefits of different types of reviews are described, and the authors explain how each can be used for the best results. Sequential chapters in the book detail the critical stages and the development of a program review plan, from assessing the need for review to determining the review criteria and selecting the right approach; the authors then show how to establish the organizational climate which promotes successful program review through

gaining the support of decision makers and maintaining good communications.

*Successful Program Review* offers advice on such practical matters as appointing a review coordinator, hiring consultants, preparing program self-studies, and collecting and analyzing data to ensure a smooth and efficient implementation process. Further, it provides nuts-and-bolts information on how to report results, who should communicate them, and how the review outcomes can be utilized effectively.

The authors present examples of successful review techniques and reveal strategies to ensure that reviews truly benefit the institution and its constituents, including how to take action on review outcomes to improve a program, or how to merge program review with accreditation and assessment processes for better and more comprehensive use of data and resources.

Robert J. Barak is the Deputy Executive Director and Director of Academic Affairs and Research for the Iowa

Board of Regents. He has written numerous books and articles on program review, including *Program Review in Higher Education* (1982). Barbara E. Breier is Assistant to the Provost and is Director of Continuing Education and Evening Programs at Hardin-Simmons University in Abilene, Texas.

A more basic approach to planning and carrying out research on higher education is provided in *By Design* (Harvard

University Press, 1990; 242 pp, \$10.95). This well-written sourcebook for learning about research on colleges and universities is nontechnical in nature and broad in scope. The authors, Richard J. Light, Judith D. Singer, and John B. Willett, believe that careful design of research on college effectiveness is the single most important step toward producing useful and valid findings. Building on that premise, *By Design* is a succinct textbook of modern research methods that will be of significant use to individuals undertaking a study of program effectiveness.

The first chapter launches the book with a series of questions: "Is your college doing a good job of teaching undergraduates to think critically? Do your students write

(continued on back page)

Feature	Consultant-Oriented	Survey-Oriented	Data-Oriented	Self-Study	Combination
Purpose	Summative or formative	Summative or formative	Usually summative	Usually formative	Summative
Primary persons	Consultants	Institutional research person	Institutional research person	Program faculty	Review committee or administrator
Typical methods	Expert opinions of consultants	Survey instruments	Data collection and analysis	Self-study	Survey consultants, data analysis, self-study
Typical questions	What is consultant's opinion of the program?	What are student, faculty, alumni, employees', others' opinions of the program?	What do the data indicate about the effectiveness and efficiency of the program?	What do we want to know about ourselves and our program?	All of the other questions
Cost	High	Low-medium	Medium-high	Low	Medium-high
Resource requirements	Low	Medium	Medium-high	Low	Medium-high
Design considerations	Requires careful selection and instructions for consultants	Requires careful development, distribution, and analysis of surveys	Requires careful development of data elements, indicators, and analysis	Requires careful design of self-study, contact, and analysis of results	All of the considerations

*Successful Program Review: Five Common Approaches to Program Review*

## The Search

(continued from page 7)

clear and gracious prose? Which professors are the most effective teachers? What do they do that makes them so effective? Could others become more effective by emulating them? Are students integrating modern technology into the way they work and the way they learn? Do students who use computers learn more than those who do not?"

This type of question clearly is not new, but the questions do represent the types of inquiries being made by colleagues, administrators, students, legislators, parents, and even the profession. For this and myriad other reasons, the research being initiated today must develop results which can be used to strengthen educational quality. *By Design* offers an approach to research based on a collaborative and cooperative paradigm. Written in the format of a discussion with colleagues, the book is designed to guide researchers toward an effective plan. Using more than 50 examples, the authors present a step-by-step approach toward designing, implementing, and interpreting research on program effectiveness.

Richard J. Light is Professor, Graduate School of Education and Kennedy School of Government, Harvard University; and coauthor of *Summing Up: The Science of Reviewing Research*. Judith D. Singer and John B. Willett are Associate Professors, Graduate School of Education, Harvard University.

Together, these two volumes provide an excellent basis for beginning the process of review on your campus. By defining the important areas of focus, and helping to eliminate distracting ones, your reading of these books will help you to clarify your own thinking on the subject. Finally, you will find that the enthusiasm of these authors for the process of review and the implementation of change is contagious: You will become all the more anxious to study and constantly improve your courses and programs.

## Verbal Skills Testing

(continued from page 2)

The committee selected Model B (separate content and verbal skills scores) as the most appropriate, based on its belief that the separate scoring approach would provide a greater incentive for CPA candidates to improve their verbal skills.

### **Should verbal skills assessment be a prerequisite for career licensure?**

The special committee surveyed several professional examinations and the licensure requirements in several states to determine if these professions assess verbal skills as part of their licensure processes and if so, which methods are used. Four of the eight states surveyed do assess verbal skills on supplemental examinations developed by the state bar association for licensure in the law profession. The Colorado model was deemed to be the most appropriate; that state administers a performance test to present candidates with issues resembling those encountered in practice. The Colorado performance test assesses legal analysis, fact analysis, awareness of professional responsibilities, problem solving, research skills and writing skills. The committee proposed adoption of a similar approach as the most appropriate method for assessing verbal skills among accounting candidates.

In addition to these findings, the special committee made the following six recommendations:

1. The Board of Examiners should grade selected free response/essay questions on the Uniform CPA Examination for both technical knowledge and verbal skills.
2. The separate verbal skills grade should not be reported to boards of accountancy or candidates. Only the total score on each question should be reported.
3. Sufficient points should be assigned for verbal skills to influence candidates to consider them an important aspect of the final score.

4. The Board of Examiners should evaluate and publicize the effects of verbal skills assessment on examination performance.
5. Boards of accountancy should review their statutes, rules, and regulations to determine whether they allow for a requirement to assess verbal skills.
6. In addition to assessing verbal skills on the CPA exam, the AICPA Education Executive Committee should study the feasibility of developing a testing program similar to that proposed in Model D (a separate exam to be used by colleges, universities, and/or employers).

Copies of the special committee's report, including appendices summarizing models for assessing the CPA verbal skills, performance testing in Colorado, and a survey of professional state licensing examinations are available in limited quantity from the Institute's Relations with Educators Division.

## Education (continued from page 4)

Among the action plans are: (1) encouraging other organizations to take positive positions in favor of change, (2) providing more support for teaching-oriented activities, (3) working with the AACSB to develop supportive accreditation standards, (4) developing outreach programs to establish channels of communication with university presidents, provosts, and business school deans, (5) encouraging more networking between and among accounting educators and practitioners, and (6) encouraging universities and accrediting agencies to put some emphasis on pedagogical techniques in doctoral programs.

The Education Executive Committee urges readers to actively support not only the work of the AAA Accounting Education Change Commission but also the thrusts of the AICPA in its efforts to help implement needed changes in accounting education.



---

***Should I have programs that I want to attend accredited or pre-approved by the AICPA?***

No. The AICPA does not accredit CPE programs, but has issued standards for group and self-study CPE programs, which sponsors are encouraged to adopt and observe. As long as a program enhances the professional competence of the member and is a formal program of learning, it will meet the AICPA CPE requirements.

Some states do have special requirements for advance approval. Contact the appropriate state board or state society for more information.

---

**FOR MEMBERS IN PUBLIC PRACTICE**

***Will compliance with the CPE requirements of a state board of accountancy or state society fulfill the AICPA's CPE requirement?***

Recognizing that states have different requirements, the AICPA established a special provision for members already complying with state requirements. If a member complies with a state licensing or state society membership continuing education rule that requires an annual average of 40 hours or more, the member is in compliance with the AICPA requirement even if the state has a different reporting period. The member still must complete the AICPA's required minimum of 20 hours each year.

***I work for a CPA firm that is a member of the AICPA's Division for CPA Firms, and I am in compliance with the Division's CPE requirements. However, my firm uses a June 30 year-end. Must I report on a calendar-year basis to the AICPA?***

No. A member in compliance with the CPE requirements of the AICPA Division for Firms is deemed to be in compliance with the AICPA CPE membership requirements. If the member's firm uses a fiscal year-end rather than a calendar year-end reporting period, the member can use the fiscal reporting period.

---

**FOR MEMBERS IN EDUCATION**

***Will course preparation and classroom teaching qualify for CPE?***

Instructors and discussion leaders will receive CPE credit for both preparation and presentation of programs that are at a level that enhances their professional competence and for which participants may receive CPE credit. As much as two credit hours for actual preparation will be granted for every one classroom hour. However, the maximum credit for preparation and presentation cannot exceed 50% of the total CPE credit hours in the three-year reporting period. Credit will not be granted for repetitious presentations unless the subject matter was changed to require significant additional work.

---

***How would I determine the number of CPE credit hours granted for a formal group program?***

Measure all programs in terms of a 50-minute contact hour. Credit is granted only for full contact hours, and not for less than one contact hour. A group program lasting 100 minutes would count for two hours, but one lasting 50 to 90 minutes would count for only one hour. For continuous conferences, when individual sessions are less than 50 minutes, consider the sum of the segments. For example, five 30-minute presentations would equal 150 minutes, or three contact hours.

---

**FOR MEMBERS IN INDUSTRY**

***I joined the AICPA in July 1990. What are my CPE requirements?***

As a member in industry, you must complete 90 hours of CPE over the three years beginning Jan. 1, 1991, including at least 15 hours each year. New members start these requirements in the calendar year after they join. The 60-hour transition requirement applies only to those individuals who were AICPA members on Dec. 31, 1989.

***Do I have to take a minimum number of credits in accounting and auditing?***

No. You may take any program that is a formal program of learning and that enhances your professional competence.

***Until two months ago I worked for a public accounting firm. I now sell real estate and do not work in accounting, auditing, or tax. Am I considered retired and therefore exempt from the CPE requirement?***

No. You are a member not in public practice for purposes of the CPE requirement. "Retired" means a member is retired for AICPA dues purposes.

---

**FOR MEMBERS IN GOVERNMENT**

***I will be completing the CPE requirements required by the 1988 revision of the government auditing standards, called the "Yellow Book." Will I need to take any additional courses to comply with the AICPA's requirements?***

No. The General Accounting Office's "Yellow Book" requires, among other things, an average of 40 hours of CPE per year, and a minimum of 20 hours in each year. AICPA members in government must complete 60 hours of CPE over a three-year period, including at least 10 hours each year (90 hours in subsequent periods). Therefore, by meeting the "Yellow Book" requirements, members in government will exceed the AICPA CPE requirement.

---

**For More Information**

For answers to questions about the new CPE requirements, write to Michelle Macrina, technical adviser, CPE Division, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775. To order the brochure, *Policies for the CPE Membership Require-*

*ment*, which includes the *Statement on Standards for Formal Group and Formal Self-Study Programs*, write to the AICPA Order Department, P.O. Box 1003, New York, N.Y. 10108-1003 and ask for product number G00560. The first five copies are free.



The International Federation of Accountants (IFAC) has issued four statements (IFAC publications are available from the AICPA Order Department. See next page for order information):

■ IFAC's Public Sector Committee issued Public Sector Guideline 2, **Applicability of International Auditing Guidelines to Audits of Financial Statements of Government Business Enterprises** (019366). Price: \$5; \$4 for AICPA members.

■ IFAC's Financial and Management Accounting Committee approved for publication International Management Accounting Practice 3, **Foreign Currency Exposure and Risk Management** (019934). The object of the document is to provide a systematic approach to managing foreign currency exposures and the risks associated with exchange-rate changes between currencies. Price: \$6; \$4.80 for AICPA members.

■ IFAC's International Auditing Practices Committee issued International Auditing Guideline 28, **First Year Audit Engagements—Opening Balances** (019277). This guideline deals with the auditor's problems of balances brought forward from a period when he was not the auditor. Price: \$5; \$4 for AICPA members.

■ IFAC's International Auditing Practices Committee approved the issuance of International Auditing Guideline 29, **The Assessments of Inherent and Control Risks and Their Impact on Substantive Procedures** (019278). The document requires that an auditor understand the internal control and accounting systems and document that understanding. Price: \$5; \$4 for AICPA members.

IFAC's **Guideline on Ethics for Professional Accountants** (019975) is the first attempt to institute a comprehensive code of ethics for all accountants worldwide. The document is divided into sections for accountants in public practice and in industry. Price: \$5; \$4 for AICPA members.

The International Accounting Standards Committee (IASC) has issued two publications. The first, **Statement of Intent—Comparability of Financial Statements** (036295), explains the results of the IASC's review of the comments received on Exposure Draft 32, *Comparability of Financial Statements*, and describes additional steps the IASC will take as part of its project to improve and harmonize international accounting standards. The statement of intent is not an international accounting standard (IAS), and it does not alter the status of existing IASs.

The second publication, IAS 30, **Disclosures in the Financial Statements of Banks and Similar Financial Institutions** (036287), applies to financial statements for accounting periods beginning on or after Jan. 1, 1991. The price of both publications is \$5; \$4 for AICPA members. (IASC publications are available from the

AICPA Order Department. See next page for order information.)

**Current Industry Developments: State and Local Governmental Developments—1990** (022056) updates the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*. The update highlights recent changes in state and local governmental accounting and reporting standards and includes auditing deficiencies identified by federal inspectors general. Price: \$3; \$2.40 for members.

**The Practicing CPA on Practice Development** (092100) provides practical articles for practitioners in small to medium-size firms on such matters as advertising and public relations, developing niches and specializations, and how to market and sell services. They are reprinted for *The Practicing CPA*. Price: \$35; \$28 for members.

**AICPA Audit and Accounting Manual** (007251) explains and gives examples of various techniques and procedures in every facet of the audit engagement and provides non-authoritative solutions and illustrations. Price: \$50; \$40 for members.

**AICPA Technical Practice Aids (Including Statements of Position)** (005050) covers the most frequent questions and problems posed to the AICPA Technical Information Service. It summarizes the problems and provides solutions or recommendations, and references to appropriate sources. Price: \$50; \$40 for members.

**AICPA Professional Standards** (005010) is a two-volume set that is indexed and organized by subject to help practitioners find current pronouncements. Price: \$67.50; \$54 for members.

**FASB Accounting Standards—Current Text** (005020) is a two-volume set that integrates all accounting pronouncements currently in effect. Price: \$67.50; \$54 for members.

**FASB Accounting Standards—Original Pronouncements** (005040) is a two-volume set of a collection of current accounting standards, interpretations, opinions, and bulletins as issued in their original text. Price: \$67.50; \$54 for members.

Additional discounts are available when publications are ordered in sets: **AICPA Professional Standards/FASB Accounting Standards—Current Text** (005030). Price: \$100; \$80 for members. **AICPA Professional Standards/FASB Accounting Standards—Current Text/Technical Practice Aids/Audit and Accounting Manual** (005060). Price: \$188; \$150.40 for members.



*Last Chance to Register*

# **The AICPA Annual Members Meeting**

***October 21 to October 24, 1990***

***Baltimore, Maryland***

**Highlights of this year's meeting include:**

## **■ *World-Class Speakers.***

Prominent speakers include **Jay N. Woodworth**, vice president and senior domestic economist, Bankers Trust Company; **Elizabeth Drew**, author and political correspondent; **Charles Nesson**, professor, Harvard Law School; **John Naisbitt**, author and futurist; and **Thomas W. Rimerman**, 1990-91 Chairman of the AICPA Board.

## **■ *Issues-Oriented Breakout Sessions.***

A new feature this year will be concurrent sessions on topics of special concern to members (see opposite side for details). Come express your views to the Institute's leadership.

## **■ *Exciting Optional Tours and Events.***

Visit the Amish country, tour Gettysburg, or explore Baltimore's bustling Inner Harbor.

***Can't Attend Every Day? Partial Registration is Available.***

**For More Information, Call 212-575-6451**

***Recommended CPE Credit: 13 hours***

*Navigating  
the 90s*



# Make Your Voice Heard at the 1990 AICPA Annual Meeting

*What programs and services should the Institute offer to be more responsive to the needs of sole practitioners? small firms? large firms? members in industry, government and education?*

If you have the answer, we want to hear from you at the 1990 AICPA Annual Meeting.

A new feature of this year's meeting will be discussion groups zeroing in on issues and topics selected by you—the Institute's members and readers of *The CPA Letter*. The tightly focused sessions will provide a forum for you to advise Institute leadership of your concerns on critical professional issues. Let us know exactly what challenges lie ahead, and what the Institute can do to make a difference.

How will we ensure a continuing supply of quality people into the profession? What can the AICPA do to help employers of CPAs adjust to the impact the 150-hour education requirement may have on hiring trends? These and other questions will be addressed at a session on human resources. Other sessions will focus on:

- Taxation Issues on the Horizon
- The Firm of the Future
- The Institute's Response to Member Needs
- The Changing Role of the Auditor
- Information Technology—Its Future Impact

Here's your opportunity to speak out on issues affecting you and your peers. Don't miss this chance to help chart the course of the profession. Register today!

## P U B L I C A T I O N S

**19 Tax-Saving Tips for 1990** (889526) is a two-color brochure outlining 19 tax tips for clients. The price is \$15 per 100. The brochure is part of the AICPA's 1990 year-end materials designed to assist CPAs in helping clients reduce their tax bills. Other materials follow:

**Countdown to Tax Time: A Year-End Tax Planning Guide** (889511), is a slide presentation of 39 color slides and a related script. Among the topics are retirement plans and itemized deductions for individuals. When making this presentation, CPAs may want to use the *Tax-Saving Tips* brochure as a handout. Cost is \$125 for the first set of slides, and \$65 for each additional set.

**Tax-Trimming Tips for 1990** (890661), is a 20- to 25-minute speech offering an explanation of what it means to defer and accelerate income and deductions. It also outlines basic year-end, tax-saving strategies. The speech comes with a media-interview guide. Price: \$3.

To order new publications, slides, or speeches, write to the AICPA Order Department, CPA 990, P.O. Box 1003, New York, N.Y. 10108-1003, or call 800/334-6961, or 800/248-0445 in New York State. Ask for Operator CPA 990. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., Eastern time. Prices do not include shipping and handling.

## M E E T I N G S A N D C O N F E R E N C E S

**The Jerusalem Conference on Accountancy** is for accountants worldwide seeking to examine contemporary issues affecting the profession. Technical sessions will focus on harmonization and standard setting; harmonization of auditing standards and of the rules of professional conduct; and trends and changes affecting the accounting profession. Dates and location: Nov. 11-14, The Jerusalem Hilton, Jerusalem. Registration: \$440. For information, write to Conference Secretariat, Jerusalem Conference on Accountancy, P.O. Box 50006, Tel Aviv 61500, Israel, or call 972 3 654571.

**The ASEAN Federation of Accountants Conference** is for practitioners and others seeking information on accounting issues from a South East Asian perspective. Hosted by the Institute of CPAs of Singapore, the conference will include sessions on investment and trade opportunities in South East Asia, the impact of the European Common Market on the Association of South East Asian Nations (ASEAN) in 1992, and emerging capital markets in the region. Dates and location: Nov. 12-14, Westin Hotel, Singapore. Registration: S\$500. For information, write to the Institute of CPAs of Singapore, 116 Middle Road #09-01/04, ICB Enterprise House, Singapore 0718, or call 3367020.

**The National Construction Industry Conference** is for practitioners, controllers, attorneys, surety underwriters, financial managers, contractors, and engineers seeking an update and specialized knowledge on construction accounting, auditing, taxation, operations, marketing, and financial management. Topics will include construction taxation, crisis management planning, construction turnaround, and public works contracting. Dates and location: Dec. 3-4, Desert Inn, Las Vegas. Registration: \$495. Recommended CPE credit: 16 hours. For registration and information, call 800/242-7269, or, in New York State, 212/575-5696.

**The Fall Tax Division Meeting** is for members of the AICPA's Tax Division seeking the latest information on current technical and practice issues. Joining the top

speakers from the profession will be IRS Commissioner Fred Goldberg. Dates and location: Dec. 6-8, Walt Disney World Swan Resort, Orlando. Registration: \$75 for Dec. 7; \$35 each for Dec. 6 and 8. Recommended CPE credit: 8 hours for attending all sessions on Dec. 7. For information, call Kristina Korte at 202/737-6600.

**The National Accounting and Auditing Conference on Employee Benefit Plans** is for practitioners and others involved with employee benefit plans. Topics will include an update on current employee benefit plan accounting, auditing and reporting matters, current legislative actions, and the concerns of the Pension and Welfare Benefits Administration and the U.S. Department of Labor, Office of the Inspector General. Dates and location: Dec. 10-11, Ramada Renaissance Techworld, Washington, D.C. Registration: \$495. Recommended CPE credit: 16 hours. For information, call 212/575-6451.

**The National Conference on Current SEC Developments** is for those who have a good working knowledge of current SEC rules and regulations and who want to work more efficiently with current SEC rules and regulations. Among the speakers from the SEC will be Chairman Richard Breeden, Chief Accountant Edmund Coulson, the director of the division of corporation finance, Linda C. Quinn. Topics will include current projects in the office of the chief accountant, perspectives on the SEC review and comment process, and filing electronically, (called EDGAR). Dates and location: Jan. 8-9, Grand Hyatt, Washington, D.C. Registration: \$475. Recommended CPE credit: 16 hours. For information, call 212/575-6451.

**The Personal Financial Planning Technical Conference** is for accountants seeking an advanced or intermediate level of knowledge on current developments in PFP, technical planning strategies, and practice management. Sponsored by the AICPA's PFP Division, the conference is designed to allow participants to learn from PFP experts and to hear how others address similar practice issues. Dates and location: Jan. 9-11, Hyatt Grand Champions, Palm Springs, Calif. Registration: \$495. Recommended CPE credit: 16 hours. For information, call 212/575-6451.

**GAO Says GAAP Helps  
Delay Recognition of  
Bank Losses**

The General Accounting Office (GAO) said recognition of estimated losses to the Bank Insurance Fund may be unduly delayed under generally accepted accounting principles. Asking accountants to correct the problem immediately, GAO officials said GAAP allows management too much discretion in recognizing losses in banks' financial statements. In testimony before the Senate Banking Committee on Sept. 11, the officials said that under GAAP, a loss must be "probable" before being recognized. The GAO believes "probable" is frequently interpreted as "virtually certain," and thus unduly delays the write-down of problem assets to fair market value, deferring recognition of the loss in the financial statements. The comments are contained in a free GAO report of its audit of the fund, GAO/AFMD-90-100. Write to the GAO, P.O. Box 6015, Gaithersburg, MD 20877, or call 202/275-6241.

The General Accounting Office (GAO) said recognition of estimated losses to the Bank Insurance

**FDIC Specifies Documents  
External Auditors  
Must Receive**

The Federal Deposit Insurance Corp. (FDIC) has notified FDIC-insured depository institutions that they must make specific information available to external auditors under section 931 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The FDIC also has issued a follow-up memorandum that answers frequently asked questions about the notice. In general, an insured institution must provide the auditor with copies of its most recent Report of Condition and its most recent Report of Examination. The independent auditor must acknowledge in writing the receipt of the documents. The FDIC requests that the Report of Examination not be copied nor verbatim notes be taken from it. To get a copy of notice FIL-37-90 and the Aug. 23 memorandum, write to the FDIC, Attention: Office of Corporate Communications, 550 17th St., N.W., Washington, D.C. 20429, or call 202/898-6996.

The Federal Deposit Insurance Corp. (FDIC) has notified FDIC-insured depository institutions

**Revised Auditing  
Standards Proposed for  
Small Business  
Investment Companies**

Independent public accountants performing audits of small business investment companies (SBICs) would be required to use generally accepted government auditing standards (GAGAS), under a rule proposed by the Small Business Administration. Accountants auditing SBICs currently are required to use generally accepted auditing standards (GAAS). Current government standards (GAGAS) require auditors to report on the internal control structure and compliance with laws and regulations. The SBA is also developing an audit guide specifically addressing the compliance aspect of an SBIC audit. Until the guide is available, the SBA said compliance tests should be designed in accordance with the publication, *Government Auditing Standards*, often called the "Yellow Book." For further details, see the *Federal Register*, Aug. 23.

Independent public accountants performing audits of small business investment companies (SBICs) would be

**Final Real Estate  
Appraisal Rules Released**

Six federal agencies have released final rules regarding the performance and use of real estate appraisals in connection with federal real estate-related financial transactions. For further details, see the *Federal Register*, July 5 and 25, and Aug. 20, 22, 23, and 24.

Six federal agencies have released final rules regarding the performance

**SEC Releases Staff  
Accounting Bulletin No. 88**

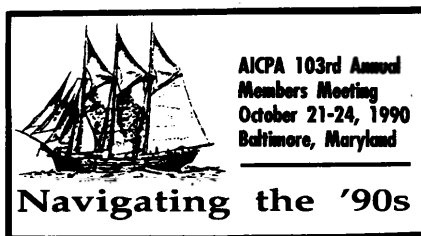
Views of the SEC staff relating to the requirements of Item 17 of Form 20-F for foreign registrants, which concern reconciliation of financial measurements and disclosures in financial statements prepared on a basis other than U.S. generally accepted accounting principles, are the subject of SEC Staff Accounting Bulletin No. 88. For further details, see the *Federal Register*, Aug. 15.

Views of the SEC staff relating to the requirements of Item 17 of

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.



# The CPA Letter

## A News Report to Members

---

### What's Inside

Arkansas Raises  
Education Requirement **2**

Notice to Practitioners:  
Form Revised  
to Confirm  
Account Balances **3**

New Audit  
and Accounting  
Guides Released **5**

House Approves  
Bill to Improve  
Federal Financial  
Management **6**

U.S. Budget Battles  
May Doom Fiscal Tax  
Year-end Bills **6**

---

### AcSEC Continues Debate on Accounting for Debt Securities

*Breeden says  
reflecting market  
prices is essential  
to fair financial  
reporting*

At its meeting in September, the AICPA's Accounting Standards Executive Committee (AcSEC) considered the comments it had received

on its exposure draft on accounting for debt securities held by financial institutions. A number of letters expressed concern about the cost of implementing the measurement proposals in the exposure draft. Others raised doubts about whether the proposals would achieve the objective of consistency in financial reporting by financial institutions in similar positions.

At that meeting, AcSEC decided to issue a statement of position mandating extensive disclosures about the market values of debt securities held for investment or possible sale and about the unrealized gains and losses inherent in those securities. That statement is expected to be issued shortly, and it will be effective for Dec. 31, 1990, year-end financial statements of financial institutions.

AcSEC also decided to continue its deliberations on the question of whether a change should be made in the accounting for those securities. The committee agreed that it

should consult with FASB and the SEC in considering an appropriate course of action.

On Oct. 2, AcSEC representatives met to discuss this matter with FASB Chairman Dennis R. Beresford, FASB Vice-Chairman James J. Leisenring, SEC Chairman Richard C. Breeden, SEC Commissioner Philip Lochner, Jr., and various SEC staff. At that meeting, Breeden firmly reiterated his view, recently stated in congressional testimony, that reflecting market prices in the valuation of debt securities held by banks and savings institutions is absolutely essential to fair financial reporting. He strongly urged AcSEC to complete its deliberations as soon as possible and encouraged FASB to pursue its broader project on financial instruments. FASB's project could lead to a greater use of market values in the basic financial statements.

AcSEC is expected to decide by Nov. 1 on its course of action. In reaching that decision, it will consider whether all debt securities, both those held for investment and those held for possible sale by financial institutions, should be reported at market value or at the lower of cost or market. If AcSEC continues the project, it is expected to produce a statement applicable to Dec. 31, 1991, year-end financial statements.

### AICPA Backs Bill Requiring Reports on Internal Controls

*Bill also calls for  
direct notification  
to SEC of certain  
illegal acts*

The Senate should accept those provisions of the House version of the omnibus crime bill that require companies

and their outside auditors to report on internal management controls, says the AICPA. The House passed an omnibus crime bill, H.R. 5269, that contains that requirement.

H.R. 5269 also would require direct notification to the SEC when auditors uncover illegal acts (*The CPA Letter*, September). Under the bill, the board of directors would be required to notify the SEC within one business day when

the auditor reports a material illegal act that has not resulted in timely and appropriate remedial action by senior management. If the board of directors fails to do so, the bill calls for the auditor to notify the SEC.

The House bill would:

- Require specific auditing procedures consistent with generally accepted auditing standards to identify related-party transactions, detect illegal acts, and evaluate a company's ability to continue as a going concern;
- Limit auditors' liability for reporting illegal acts and, for a period of five years, limit their liability for reporting on internal controls.

## ► **Arkansas Raises Education Requirement**

Arkansas has become the 13th state to require 150 hours of education for CPA candidates. Approved by the state board of accountancy, the new regulation will be effective with the first CPA exam given in 1998. Last year, the Arkansas legislature voted to allow the board to set the education requirement.

Legislatures in 13 states and boards of accountancy in two other states are expected to consider the 150-hour education requirement next year. In addition to Arkansas, the other states that have adopted laws or requirements calling for 150 hours of education for CPA candidates are Alabama, Florida, Hawaii, Kansas, Kentucky, Louisiana, Mississippi, Montana, Tennessee, Texas, Utah, and West Virginia.

## ► **"Yellow Book" CPE Deadline Looms**

Time is running out for anyone who audits financial statements under generally accepted government auditing standards (GAGAS) and who must meet the government's new continuing education requirements. The 1988 revision of *Government Auditing Standards*, known as the "Yellow Book," requires anyone who does audits under GAGAS to meet new CPE requirements by Dec. 31. (See below, "AICPA Members Face New CPE Requirements This Year.")

The Yellow Book requires that auditors responsible for planning, directing, conducting, or reporting on government audits complete at least 80 hours of CPE every two years, including a minimum of 20 hours each year. In addition, individuals responsible for planning, directing, conducting substantial portions of field work, or reporting on government audits should complete at least 24 of the 80 hours of CPE in subjects directly related to the government environment and government auditing. If the audited entity operates in a specific area, auditors should receive training in that particular area.

For a copy of *Government Auditing Standards*, write to the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20401. Ask for stock number 020-000-00243-3.

## ► **AICPA Members Face New CPE Requirements This Year**

Effective this year, *all members* (except retirees) must meet new CPE requirements to continue their AICPA memberships. The new requirements mean:

- Members not in public practice must complete 60 hours of CPE during the first three-year reporting period, including a *minimum of 10 hours each year*.
- Members in public practice must complete 120 hours of CPE in each three-year reporting period, including a *minimum of 20 hours each year*.

For answers to questions about the wide range of programs that will be acceptable under the new requirements, see *The CPA Letter*, September, or write to Michelle Macrina, technical adviser, CPE Division, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

## ► **Public Meeting Notices**

■ **The Accounting Standards Executive Committee (AcSEC)** will do the following when it meets on Oct. 30, 31, and Nov. 1 at the AICPA in New York:

Oct. 30, morning—discuss AcSEC's course of action on the measurement phase of debt securities held as assets; consider for exposure a statement of position (SOP) on employee stock ownership plans; afternoon—meet with the Financial Accounting Standards Board.

Oct. 31, morning—discuss aspects of a proposed accounting guide, *Common Interest Realty Associations*; discuss SOP on employee benefit plans; afternoon—approve exposure draft on advertising.

Nov. 1, morning—approve exposure draft for SOP, *Accounting for Property and Liability Reinsurance Contracts*; afternoon—approve exposure draft for SOP, *Accounting for Foreign Property and Liability Reinsurance*; approve exposure draft for SOP, *Reporting of Related Entities by Not-for-Profit Organizations*.

■ **The Management Advisory Services (MAS) Executive Committee** will consider a proposed revision of the Statements on Standards for MAS when it meets on Nov. 8 at 10 a.m. in the AICPA boardroom in New York.

■ **The Auditing Standards Board** will do the following when it meets on Nov. 13, 14, and 15 at the AICPA in New York:

Nov. 13, morning—discuss proposed statement on auditing standards (SAS), *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*; afternoon—discuss proposed SAS, *Communication About Matters Involving Interim Financial Information Filed or to be Filed with Specified Regulatory Agencies*, and a proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Management's Report on the Effectiveness of an Entity's Internal Control Structure*.

Nov. 14, morning—discuss proposed revisions to SAS No. 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*, and a proposed SSAE, *Reporting on Management's Report on the Effectiveness of an Entity's Internal Control Structure*; afternoon—discuss GAAP hierarchy.

Nov. 15, morning—discuss proposed revisions to SAS No. 36, *Review of Interim Financial Statements*.

*The CPA Letter* (ISSN 0094-792x), October 1990, is published monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036-8775. Second-class postage paid at New York, N.Y. and at additional mailing offices. Copyright © 1990, American Institute of Certified Public

Accountants, Inc. Postmaster: Send address changes to Circulation Department, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

**Helene Kennedy**  
Director—Communications and Public Relations

**Joseph Burns**  
Editor

## Confirmation of Account Balances and Other Information Regarding Transactions and Arrangements with Financial Institutions

This notice from the AICPA Auditing Standards Division describes revisions to the process of confirming account balances and other information with financial institutions, including a revised standard confirmation form, and the reasons for the revisions. The AICPA, the American Bankers Association, and the Bank Administration Institute have approved the revisions to the confirmation process, the new standard confirmation form (a on next page), and the illustrative letters for confirmation of other transactions and arrangements with financial institutions.

### Why Revise the Confirmation Process and Form?

When independent auditors began using the standard confirmation form, banking laws limited the types of services banks and other financial institutions could provide. With deregulation of financial institutions, many new services are now available.

Most financial institutions can readily provide information on deposit and loan balances. The standard confirmation form is frequently completed by employees using systems that indicate the dollar amount of deposit and loan balances. These systems may not include information about other transactions and arrangements about which the independent auditor seeks information. Accordingly, proper completion of the standard confirmation form, for other than deposit and loan balances, has become difficult.

Furthermore, independent auditors may want to confirm certain types of transactions and arrangements with financial institutions, such as contingent liabilities, compensating balance arrangements, lines of credit, and other financial instruments and transactions, that the existing standard confirmation form was not designed to address. Accordingly, the American Bankers Association asked the Auditing Standards Division to revise the standard confirmation form.

### Revisions to the Confirmation Process and Form

One of the changes made to the process was to revise the method of confirming transactions and arrangements other than deposit and loan balances. The new form only provides for confirmation of deposit and loan balances. To confirm other transactions and arrangements, independent auditors should send a separate letter, signed by the client, to a financial institution official responsible for the financial institution's relationship with the client or knowledgeable about the transactions or arrangements. Since some financial institutions centralize this function, the independent auditor should ascertain the appropriate recipient. Anyone ordering the new standard form from the AICPA Order Department will receive illustrative letters for confirming some of these types of arrangements.

The previous form was titled "Standard Bank Confirmation Inquiry." The new form is titled "Standard Form to Confirm Account Balance Information with Financial Institutions" to describe more accurately the information to be confirmed by financial institutions. The independent auditor should ascertain that as much information as possible is provided on the new form to identify the deposit or loan balance being confirmed. The new form requests financial institutions to indicate any exceptions to the information noted and to confirm any additional account or loan balance information that comes to their attention during the process of completing the form.

### Use of Form and Illustrative Letters

The use of confirmation as a means of obtaining evidence is a matter of judgment independent auditors exercise after performing assessments of inherent and control risk. Both the timing and extent of confirmation procedures are based on the independent auditor's risk assessment. Assessing risk includes consideration of such factors as

### New Standard Confirmation Form

**a**

**STANDARD FORM TO CONFIRM ACCOUNT BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS**

**CUSTOMER NAME**

We have provided to our accountants the following information as of the close of business on \_\_\_\_\_, 19\_\_\_\_, regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been full, please complete this form by furnishing the balance in the appropriate space below. Although we do not request or expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit balance(s):

ACCOUNT NAME	ACCOUNT NO.	INTEREST RATE	BALANCE*

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

ACCOUNT NO./DESCRIPTION	BALANCE*	DATE DUE	INTEREST RATE	DATE THROUGH WHICH INTEREST IS PAID	DESCRIPTION OF COLLATERAL

(Customer's Authorized Signature) \_\_\_\_\_ (Date) \_\_\_\_\_

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below.

(Financial Institution Authorized Signature) \_\_\_\_\_ (Date) \_\_\_\_\_

(Title) \_\_\_\_\_

**EXCEPTIONS AND/OR COMMENTS**

Please return this form directly to our accountants: \_\_\_\_\_

\* Ordinarily, balances are intentionally left blank if they are not available at the time the form is prepared.

Approved 1990 by American Bankers Association, American Institute of Certified Public Accountants, and Bank Administration Institute. Additional forms available from: AICPA - Order Department, P.O. Box 1003, NY, NY 10108-1003

D-451 8851



knowledge of the client and the industry in which the client operates and gaining an understanding of the types of arrangements that exist between the client and financial institutions. The independent auditor's understanding of the arrangements with financial institutions and the underlying transactions is key to determining the information to be confirmed.

The standard form is designed to substantiate only the information that is stated on the confirmation request; the form is not designed to seek information about accounts that are not listed on the form. Therefore, the independent auditors should be aware that sole reliance on the standard form to satisfy the completeness assertion is unwarranted. If the independent auditor believes there is a significant risk that material accounts, agreements, or transactions of which he or she is not aware may exist, this information should be explicitly requested from an appropriate financial institution official. The illustrative letters incorporate these same concepts of substantiating

only the information requested. The illustrative letters set forth requests for information related to contingent liabilities, compensating balances, and lines of credit. The illustrative letter related to contingent liabilities appears below (b).

### Implementation Date

The new "Standard Form to Confirm Account Balance Information with Financial Institutions" and accompanying illustrative letters will be reproduced in the *AICPA Audit and Accounting Manual* in November 1990, when the new form will replace the previous form, "Standard Bank Confirmation Inquiry." The AICPA Order Department will not accept orders for the form until Dec. 1, 1990. The new form and illustrative letters should be used for confirmations mailed on or after March 31, 1991. To facilitate responding to confirmation requests, the American Bankers Association has requested that practitioners use neither the new form before March 31, 1991, nor the old form on or after that date.

### Illustrative Letter for Confirmation of Contingent Liabilities

**b**

(Date)  
Financial Institution Official\*  
First United Bank  
Anytown, USA 00000

Dear Financial Institution Official:

In connection with an audit of the financial statements of (name of customer) as of (balance-sheet date) and for the (period) then ended, we have advised our independent auditors of the information listed below, which we believe is a complete and accurate description of our contingent liabilities, including oral and written guarantees, with your financial institution. Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other contingent liabilities, including oral and written guarantees, between (name of customer) and your financial institution comes to your attention, please include such information below.

Name of Maker	Date of Note	Due Date	Current Balance
Interest Rate	Date Through Which Interest Is Paid	Description of Collateral	Description of Purpose of Note

Information related to oral and written guarantees is as follows:

---



---



---

Please confirm whether the information about contingent liabilities presented above is correct by signing below and returning this directly to our independent auditors (name and address of CPA firm).

Sincerely,  
(Name of Customer)

By: \_\_\_\_\_  
(Authorized Signature)

Dear CPA Firm:

The above information listing contingent liabilities, including oral and written guarantees, agrees with the records of this financial institution.\*\* Although we have not conducted a comprehensive, detailed search of our records, no information about other contingent liabilities, including oral and written guarantees, came to our attention. [Note exceptions below or in an attached letter.]

---



---



---



---



---

\_\_\_\_\_  
(Name of Financial Institution)

By: \_\_\_\_\_  
(Officer and Title) (Date)

\* This letter should be addressed to a financial institution official who is responsible for the financial institution's relationship with the client or is knowledgeable about the transactions or arrangements. Some financial institutions centralize this function by assigning responsibility for responding to confirmation requests to a separate function. Independent auditors should ascertain the appropriate recipient.

\*\* If applicable, comments similar to the following may be added to the confirmation reply by the financial institution: This confirmation does not relate to arrangements, if any, with other branches or affiliates of this financial institution. Information should be sought separately from such branches or affiliates with which any such arrangements might exist.

**1990 Tax Highlights for Individuals: Update and Selected Review** (product number 003550) is a new tax-assistance product from Sidney Kess. The 468-page roundup of legislation, court cases, and IRS rulings affecting 1990 individual income taxes contains detailed analysis of the most frequently encountered problems in individual income tax planning and return preparation. It includes a tax-planning checklist, a return-preparation checklist, and ways to avoid the most common preparer errors. It is written by Sidney Kess, CPA, LL.M., and Barbara Weltman, JD. Available Dec. 1. Price: \$50; \$40 for members.

An audit and accounting guide, **Audits of Providers of Health Care Services** (012422), is designed to help CPAs audit and report on financial statements of entities whose principal operations provide health care services to individuals. Price: \$20; \$16 for members.

An audit guide, **Consideration of the Internal Control Structure in a Financial Statement Audit** (012450), illustrates how SAS No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit*, might be applied in certain situations. Price: \$25; \$20 for members.

An audit and accounting guide, **Audits of Property and Liability Insurance Companies** (011913), supersedes *Audits of Fire and Casualty Insurance Companies*, which was originally issued in 1966 and amended several times since. The guide describes operating conditions and auditing procedures unique to the industry. Price: \$20; \$16 for members.

An audit and accounting guide, **Audits of Federal Government Contractors** (012430), describes relevant accounting practices and auditing procedures unique to the financial statements of entities that provide goods and services to the federal government, prime contractors, or subcontractors. Price: \$20; \$16 for members.

Statement of Position (SOP) 90-5, **Inquiries of Representatives of Financial Institution Regulatory Agencies** (014842), reminds auditors to consider regulatory examiners as a source of competent evidential matter in conducting an audit of a financial institution's financial statements. Price: \$5; \$4 for members.

An exposure draft of an audit and accounting guide, **Audits of Employee Benefit Plans** (G00522), is designed to help auditors and accountants prepare and audit financial statements of employee benefit plans. The comment deadline is Oct. 31. The first five copies are free.

An exposure draft of an audit and accounting guide, **Audits of Savings Institutions** (G00521), describes relevant matters or procedures unique to savings institutions and focuses on specific problems of auditing and reporting on their financial statements. The comment deadline is Oct. 31. The first five copies are free.

**To order publications**, write to the AICPA Order Department, CPA 1090, P.O. Box 1003, New York, N.Y. 10108-1003, or call 800/334-6961, or 800/248-0445 in New York State. Ask for Operator CPA 1090. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., Eastern Time. Prices do not include shipping and handling.

## M E E T I N G S A N D C O N F E R E N C E S

**The IRS Electronic Filing Systems National Conference and Exhibition** is for those interested in becoming electronic filers, participating electronic filers, hardware and software vendors, and banking authorities. Dates and location: Nov. 2-3, Rosemont/O'Hare Exposition Center, Rosemont, Ill. CPE credits are available for IRS Enrolled Agents and for members of other professional organizations. For information, contact the electronic filing coordinator at your IRS district office. Or, write to Pat Smith, P.F. Smith Enterprises, 8338 Sterling St., Dallas, Texas 75063, or call 214/929-9023.

**The Fall Tax Division Meeting** is for members of the AICPA's Tax Division seeking the latest information on current technical and practice issues. Joining the top speakers from the profession will be IRS Commissioner Fred Goldberg. Dates and location: Dec. 6-8, Walt Disney World Swan Resort, Orlando. Registration: \$75 for Dec. 7 (\$100 after Nov. 30); \$30 each for Dec. 6 and 8. Recommended CPE credit: 8 hours for attending all

sessions on Dec. 7. For information, call Kristina Korte at 202/737-6600.

**The AICPA National Conference on Current SEC Developments** is for those who have a good working knowledge of the SEC and who want to work more efficiently with current SEC rules and regulations. Among the speakers will be SEC Chairman Richard Breeden. Topics will include current projects in the office of the chief accountant, perspectives on the SEC filing and review process, and developments in the divisions for corporation finance and enforcement. Dates and location: Jan. 8-9, Grand Hyatt, Washington, D.C. Registration: \$495. Recommended CPE credit: 16 hours. For information, call 212/575-6451.

**The Jerusalem Conference on Accountancy**, originally scheduled for Nov. 11-14 (*The CPA Letter*, September), has been postponed to Nov. 10-13, 1991. For information, write to the Jerusalem Conference on Accountancy, P.O. Box 50006, Tel Aviv 61500, Israel, or call 972 3 654571.

**House Approves  
Conyers' Bill  
to Improve Federal  
Financial Management**

the federal government and for 22 federal departments and agencies. Sponsored by John Conyers, Jr., (D-Mich.), the chairman of the House Government Operations Committee, the bill would establish a new financial reporting structure as a test in certain departments for two years. Congress would then decide whether to expand the system governmentwide.

The AICPA applauds passage of the bill, H.R. 5687, as an important first step toward improving the financial management of the federal government and encourages the Senate to pass similar legislation. Sen. John Glenn (D-Ohio) has introduced S. 2840, the Federal Financial Management Improvement Act of 1990, which would establish a position for a chief financial officer in the federal Office of Management and Budget.

**U.S. Budget Battles  
May Doom Fiscal Tax  
Year-end Bills**

Congress to change the rules governing the election and retention of fiscal tax year-ends.

In August, two identical bills were introduced in Congress (H.R. 5484 and S. 2980) that would revise section 444 of the Internal Revenue Code and restore flexibility to the selection of fiscal tax year-ends. The proposals would let businesses select a fiscal year appropriate to their operations and let CPAs and others manage their workloads more efficiently.

S. 2980 was introduced in the Senate by Max Baucus (D-Mont.) and John Heinz (R-Pa.). H.R. 5484 was introduced in the House by Ronnie Flipppo (D-Ala.) and Hank Brown (R-Colo.). Since the bills were introduced,

The U.S. House of Representatives approved legislation on Oct. 15 to establish a chief financial management officer for

The battles over the federal budget may hinder the efforts of the AICPA and state societies to get

the AICPA and state societies have been asking members of Congress to support and cosponsor the proposals.

Supporters hope that some version of the bills will be included in any tax and budget legislation before Congress adjourns. However, the intense and highly charged political process involved in developing a budget this year may preclude provisions such as a fiscal tax year-end measure. It is unlikely that the legislation would be enacted independently, because Congress traditionally includes all tax issues in the tax and budget bill.

**IRS Proposes Pension  
Plan Amendments**

regulations governing pensions. The amendments to the first set revise and amplify certain rules under the non-discrimination requirements for qualified retirement plans under section 401(a)(4) of the Internal Revenue Code. The amendments to the second set change the rules governing the application of the average benefit percentage test under section 410(b) of the code to include employee stock ownership plans. The AICPA has submitted comments on the initial set of 401(a)(4) proposed regulations and testified before the IRS on Sept. 28. The AICPA also plans to comment on the amendments to the proposed regulations. Written comments are due by Nov. 13. For further details, see the *Federal Register*, Sept. 14.

**FDIC Revises Advice  
to Auditors**

FIL-37-90 and a follow-up memorandum on Aug. 23, requesting that the FDIC Report of Examination neither be copied nor have verbatim notes taken from it. The FDIC says this request is not a requirement and that if the auditor believes that retaining a copy of the report is necessary, the auditor should sign a written acknowledgment to the bank that the confidentiality of the copied material will be maintained.

The IRS has released amendments to two sets of previously proposed

The Federal Deposit Insurance Corp. (FDIC) released Notice

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

# The CPA Letter

## A News Report to Members

---

---

### What's Inside

Omnibus Statement Revises Going-Concern Standard	2
Notice to Members: Ban Remains on Contingent Fees for Tax Work	3
AcSEC Sends Debt Securities Issue to FASB	3
Special Report: Highlights of the 103rd Annual Members' Meeting	4
Disciplinary Actions	6
Move to Require Reports on Internal Controls Fails	8
Fiscal Year-end Revision Dropped from Tax Bill	8

---

### Council Authorizes Two Mail Ballots of Members

*One is on corporations formed under the corporation law, the other on confidential client information*

The AICPA's governing Council authorized two mail ballots of the membership during its meeting Oct. 20. In one ballot, members will vote on whether to allow CPAs to practice in corporations formed under the corporation law. The Council established minimum insurance or capital requirements, should members elect to practice in such corporations. Only Colorado, Hawaii, Kansas, and Wyoming allow CPA firms to practice in this form. Currently, firms can be formed as partnerships, proprietorships, or under a state's professional corporation law.

In the other mail ballot, members will vote on a proposal to clarify the applicability of rule 301, Confidential Client Information. If adopted, the new rule would make clear that members may not voluntarily report offenses of their clients to regulatory agencies such as the IRS.

In other actions, the Council:

■ Deferred action on a recommendation that it approve language of a rule containing a prohibition against contingent fees for preparing original or amended tax returns and tax-refund claims. The Council said the recommendation from the AICPA Board of Directors needed further study and will be reconsidered when the Council meets in May. This summer, when the Federal Trade Commission issued a final Order in its investigation of the AICPA, it

allowed the Institute to continue its prohibition against contingent fees for such tax work. Accordingly, those elements of prior rule 302, Contingent Fees, remain in effect, and members are still prohibited from offering to prepare or preparing original or amended tax returns or claims for refunds for a contingent fee. The final Order was published in *The CPA Letter*, August. (See Notice to Members, Page 3.)

■ Endorsed a position statement on education that calls for the emphasis on research in higher education to be reduced in order to foster a better balance between teaching and research. To accomplish this goal, the Council outlined a nine-step plan that includes encouraging other organizations to adopt a similar position and working with the American Assembly of Collegiate Schools of Business to develop accreditation standards that recognize the importance of the teaching function.

■ Modified the AICPA education policy on when candidates can apply to take the Uniform CPA Examination. As a result, state boards of accountancy will be encouraged to require CPA candidates to fulfill their education requirements before applying to take the exam.

■ Elected new members of the Board of Directors: Thomas W. Rimerman, chairman; Gerald A. Polansky, vice-chairman; Thomas M. Feeley, Jake L. Netterville, and Ronald S. Cohen, vice-presidents; Richard E. Piluso, treasurer; and Brenda T. Acken, Bruce J. Harper, and Herbert J. Lerner, members.

---

## ► ***Omnibus Statement Revises Going-Concern Standard***

The Auditing Standards Board has approved the *Omnibus Statement on Auditing Standards—1990*, which, among other matters, revises Statement on Auditing Standards (SAS) No. 59, *The Auditor's Consideration of the Entity's Ability to Continue as a Going Concern*. SAS No. 59 requires an explanatory paragraph in the auditor's report when the auditor concludes there is substantial doubt about the entity's ability to continue as a going concern. The omnibus SAS requires that auditors use the phrase "substantial doubt about the entity's ability to continue as a going concern" in an explanatory paragraph of the report when expressing that conclusion, or use similar language including the words "substantial doubt" and "going concern." The SEC expects auditors to state their conclusions in a manner consistent with this amendment (*The CPA Letter*, June 8). The SAS will be effective for auditors' reports issued after Dec. 31, 1990.

## ► ***SEC Seeks CPAs for Jobs, Fellowships***

The SEC has several jobs open for CPAs with three or more years of recent auditing experience in public accounting or with a corporation dealing with SEC disclosure. The jobs are in Washington, D.C., and the salaries range from \$42,601 to \$65,444. For more information, call the SEC personnel office, 202/272-5373.

The SEC is also seeking applicants for professional accounting fellowships in the Office of the Chief Accountant. During two-year terms beginning next year, the fellows will study and develop proposed federal securities rules. The application deadline is Dec. 31. For more information, write to the Office of the Chief Accountant, SEC, 450 Fifth St., N.W., Washington, D.C. 20549.

## ► ***AICPA Members Face New CPE Requirements This Year***

Effective this year, *all members* (except retirees) must meet new CPE requirements to continue their AICPA memberships. The new requirements mean:

- Members not in public practice must complete 60 hours of CPE during the first three-year reporting period, including a *minimum of 10 hours each year*.
- Members in public practice must complete 120 hours of CPE in each three-year reporting period, including a *minimum of 20 hours each year*.

For answers to questions about the wide range of programs that will be acceptable under the new require-

ments, write to Michelle Macrina, technical adviser, CPE Division, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

## ► ***Awards Will Honor Accountants***

The SEC, in cooperation with the AICPA, has established two annual awards to honor outstanding SEC accountants.

One award is named for Sydney C. Orbach, the late chief accountant of the Division of Corporation Finance, who had a distinguished career at the SEC for 30 years. It will be presented to an accountant in the division whose contributions significantly benefited the full-disclosure program, the commission, and the protection of investors.

The other award is named for Andrew Barr, whose service with the SEC spanned four decades and who was chief accountant for 16 years. It will be presented to an accountant in the Office of the Chief Accountant who displays outstanding accounting ability, analysis, critical judgment, creativity, dedication to public service and to the SEC, and who consistently demonstrates high standards of personal and professional integrity.

Anyone wishing to make a tax-deductible contribution to the awards may send donations to the AICPA, Sydney C. Orbach/Andrew Barr Fund, c/o Leonard Green, 1211 Avenue of the Americas, New York, N.Y. 10036-8775. Make checks payable to the AICPA Foundation.

## ► ***Scholarships Granted to Minorities***

The AICPA awarded \$408,500 in scholarships to 513 minority accounting students for the 1990-91 academic year. Scholarships were granted to undergraduate and graduate accounting students, including blacks, Hispanics, American Indians, and Asians. The awards for this academic year represent the highest amount the AICPA has ever given to minority students. Since the program's inception in 1970, the AICPA Minority Recruitment and Equal Opportunity Committee has awarded over \$4.4 million in scholarships to more than 4,800 students.

In addition, the AICPA awarded \$42,500 in doctoral fellowships this year to five minority accounting faculty members for completion of their studies. A total of 31 minority faculty members have received more than \$900,000 to study for their Ph.D.s in accounting since the inception of the program for faculty members from minority institutions in 1975.

The next deadline for scholarship applications is Dec. 1. For more information, write to Sharon Donahue, manager, Minority Recruitment and Equal Opportunity Department, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

## Notice to Members

### ***Rule 302 Continues to Ban Contingent Fees for Tax Preparation and Refund Claims, and for Certain Attest Work***

The final Order of the FTC, which became effective Aug. 9, 1990, stipulated that the AICPA may prohibit members from performing for a contingent fee any professional service for, or receiving such a fee from, any client for whom the member performs certain attest services. In anticipation of the final Order, the governing Council, at its May 1990 meeting, modified rule 302 to deal with attest situations. The modified rule was published in the November 1990 issue of the *Journal of Accountancy*.

The final Order also permitted the Institute to continue most of its long-standing rule relating to tax matters, an authority that had not been granted as of the May 1990 Council meeting. Consideration by Council of further revisions of the language of rule 302 with respect to tax matters has been deferred until its meeting in May 1991.

Since the FTC final Order permits the Institute to continue its existing rule with respect to most tax matters, the provisions of rule 302 prior to the May revision remain in effect with respect to such tax matters. That

rule provides that in tax matters fees are not regarded as being contingent if based on the results of judicial proceedings or the findings of governmental agencies but, as interpreted by the Professional Ethics Executive Committee, the preparation of original or amended tax returns or claims for refunds does not fall within that exception.

***Accordingly, members are advised that they continue to be prohibited from offering to prepare or preparing for a contingent fee original or amended tax returns or claims for tax refunds.\* Moreover, under the terms of the May 1990 modification, members in public practice may not accept contingent fees from clients for whom the member also performs audits, reviews, certain compilations, or examinations of prospective financial information.\*\****

\* See rule 302 as it appeared prior to the May 1990 modification and interpretation 302-1.

\*\* See the revised rule as published in the November 1990 issue of the *Journal of Accountancy*.

## **AICPA Applauds Passage and Signing of Federal CFO Act**

The Chief Financial Officers Act of 1990 passed on Oct. 28 in the waning hours of the 101st Congress, and President Bush signed the bill into law on Nov. 15.

The culmination of years of work by Congress, the administration, the AICPA, and others, the act incorporates most of the recommendations of the AICPA's Task Force on Improving Federal Financial Management. It was introduced in the House by Congressmen John Conyers (D-Mich.) and Frank Horton (R-N.Y.), and in the Senate by Senators John Glenn (D-Ohio) and William Roth, Jr. (R-Del.).

"The AICPA is happy with the progress that has been made on the concept of a CFO of the United States," said Joe Moraglio, AICPA vice-president-federal government. "Some provisions need to be perfected, but this bill is a good starting point on what we believe will be an evolutionary process."

Specifically, the act:

- Establishes an office of federal financial management within the OMB to be headed by a controller appointed by the president;
- Requires that major departments and agencies have a CFO and a deputy CFO;
- Requires the OMB director to prepare, implement, and update annually a government-wide five-year financial management plan;
- Creates a schedule for certain agencies to develop and issue audited financial statements.

The AICPA also recommended improving the process of setting federal accounting standards. Separately, the General Accounting Office, the OMB, and the Treasury Department have agreed to establish a new federal accounting standard-setting body to improve the current process.

## **AcSEC Sends Debt Securities Issue to FASB**

The AICPA's Accounting Standards Executive Committee (AcSEC) voted during its meeting Oct. 30 to Nov. 1 to refer the issue of accounting for debt securities held by financial institutions to FASB (*The CPA Letter*, October). In a letter to FASB Chairman Dennis R. Beresford, AcSEC Chairman John L. Kreischer said FASB is the appropriate body to develop an objective standard because the issue significantly affects financial institutions, and FASB has options not available to AcSEC. As a result of the request, FASB said it may decide on the issue by the end of next year.

FASB has cleared an AcSEC statement of position

mandating extensive disclosures about the market values of debt securities held for investment or possible sale and about the unrealized gains and losses inherent in those securities. That statement is expected to be issued shortly and will be effective for Dec. 31, 1990, year-end financial statements of financial institutions.

The SEC has sought a standard to require banks, insurers, and other financial institutions to report securities in their financial statements at market value. Recently, Federal Reserve Board Chairman Alan Greenspan criticized the SEC's position, saying it could cause undue volatility in reported bank earnings.

## Highlights of the 103rd Annual Members' Meeting

### *Rimmerman Calls for Changes in Four Areas*

Thomas W. Rimmerman, CPA, chairman of the AICPA Board of Directors, said the profession needs to make changes in four important areas. In his inaugural speech during the 103rd annual members' meeting last month, Rimmerman said the four areas are: financial reporting, the profession's regulatory system, affiliation of non-CPA professionals with the AICPA, and improving federal financial management.

Addressing more than 1,200 CPAs and their guests in Baltimore, Rimmerman said he would appoint a new AICPA group to do an in-depth study of financial reporting. Many people believe the broad principles for financial reporting produce unsatisfactory results and current generally accepted accounting principles are too flexible, he said. "There is real reason to believe the needs of the users of financial statements are not being met," said Rimmerman, the managing partner of Frank, Rimmerman & Co., Menlo Park, Calif.

On regulation, he stated, "We must achieve uniformity in CPA certification and state licensing. We have all passed the same Uniform CPA Examination, received certification and obtained the necessary licenses, but we are not free to cross state borders to practice our profession."

Regarding allowing non-CPAs working in CPA firms to become affiliates of member sections, Rimmerman said Institute affiliation would provide necessary professional status and recognition to these high-level individuals, and would supply the AICPA with a reservoir of knowledge and expertise.

Praising efforts in Congress to reform federal financial management, Rimmerman said, "We will continue to press for legislation that gives the CFO [of the government] sufficient authority and budget to get the job done right." (See "AICPA Applauds Passage of Federal CFO Act," Page 3.)

### *Speakers Address Professional Issues*

Among the highlights of the 103rd annual members' meeting in Baltimore Oct. 21 to 24 was a stimulating panel discussion on professional issues led by Harvard Law School Professor Charles Nesson. Also, Jay Woodworth, vice-president and senior domestic economist for Bankers Trust Co., New York, said the country is in a recession and predicted that it should end by next spring. Elizabeth Drew, Washington correspondent for *The New Yorker*, gave an insider's view on events in the Persian Gulf and in Congress. Futurist John Naisbitt spoke about the coming global economic boom of the 1990s.

The program for this year's meeting featured small concurrent sessions in which members focused on specific issues affecting all members.

Audio tapes are available for most of the annual meeting speakers, but not for the concurrent sessions. For more information, write to Conference Copy Inc., 2222 Avenue X, Brooklyn, N.Y. 11235 or call 718/934-2678.

### *AICPA Gold Medal Awarded to B.Z. Lee*

Bernard Z. Lee, CPA, the AICPA's deputy chairman—federal affairs, received the Institute's Gold Medal Award during the 103rd annual members' meeting last month. The highest honor the Institute can bestow, the medal is awarded for distinguished service to the accounting profession.

A former chairman of the AICPA Board of Directors and of the accounting firm BDO Seidman, Lee was honored for making substantial contributions while working on several important committees. These included a special committee that led to the creation of the AICPA's Division for CPA Firms, the Small and Medium Sized Firms Special Committee, and the Standards of Professional Conduct for CPAs Special Committee (the Anderson Committee). The Anderson Committee recommendations led to changes that require quality review for firms with audit or accounting practices, continuing professional education for all members, and the 150-hour education requirement for AICPA membership beginning in the year 2000.

### *Seven Graduates Earn Exam Awards*

Elijah Watt Sells medals were presented to seven accounting graduates at the AICPA's 1990 annual members' meeting in Baltimore last month. Sells medals are awarded to candidates who earned the highest scores among those who took all four parts of the Uniform CPA Examination. The seven graduates took the exam in November 1989 and May 1990.

During the May exam, some 68,050 candidates completed a total of about 241,864 papers. The May award winners are:

- Kevin Charles Banwart of Toledo, Iowa, who graduated with highest honors from the University of Northern Iowa, is an accountant with Pratum Co-op, Salem, Ore. He won the gold medal for the highest score.
- John Damian of Lynnfield, Mass., a summa cum laude graduate of Bentley College and a staff member at Arthur Andersen & Co., Boston, won the silver medal.
- Kelly Kristine Higgs of Scottsdale, Ariz., a summa cum laude graduate of Arizona State University and an audit associate in the Phoenix office of Coopers & Lybrand, also won the silver medal.
- Jeffrey Kersten of Roseville, Minn., a summa cum laude graduate of the University of North Dakota and a staff member in the tax department of Arthur Andersen & Co., St. Paul, Minn., won the bronze.

The award winners from the November 1989 exam are: Donald S. Blair of Baltimore, (gold); Nicholas R. Scarles of New York, (silver); and Lewis S. Klessel of Cherry Hill, N.J., (bronze). (See *The CPA Letter*, June 8.)

## Loose-leaf Subscription Services Available to Members Only

Available to members only, loose-leaf subscription services provide prompt updates of the latest pronouncements, interpretations, and guidelines from the AICPA and FASB. Subscribers get major and minor changes to the rules and regulations governing accounting procedures. Each service includes two complete loose-leaf volumes plus periodic updates.

The following loose-leaf services are available at a special six-month price for members through May 31, 1991:

- **FASB Accounting Standards—Current Text (G01011)** integrates into one text all accounting pronouncements currently in effect. Price: \$115.
- **AICPA Professional Standards (G01012)** contains all pronouncements and interpretations currently in effect. Price: \$75.
- **AICPA Technical Practice Aids (Including Statements of Position) (G01013)** covers the most frequently asked questions and problems posed to the AICPA Technical Information Service. It summarizes the problems and provides recommendations for solutions and appropriate reference sources. It includes all AICPA statements of position and issues papers. Price: \$65.
- **AICPA Audit and Accounting Manual (G01014)** is an audit reference that contains a wealth of explanations and illustrations of audit techniques and procedures. It includes a variety of sample work papers, audit programs, internal control approaches, letters, and forms. Price: \$65.

Additional discounts are available when subscribing to more than one service:

- **AICPA Professional Standards/FASB Accounting Standards—Current Text (G01015)**. Price: \$157.50.
- **AICPA Professional Standards/FASB Accounting Standards—Current Text/Technical Practice Aids/Audit and Accounting Manual (G01016)**. Price: \$242.50.
- **The Quality Review Program Manual (G01017)** is a reference source for every firm in the quality review program, regardless of size. Prepared by the Quality Review Executive Committee, it contains information on how to manage peer reviews and reviews of other firms. The manual provides all standards, policies, checklists, and procedures pertaining to quality review. Price: \$75.

The following new loose-leaf and electronic service is available for one-year subscriptions (January through December 1991): **The Audit and Accounting Guide Service** provides prompt updates of 26 current industry and other audit and accounting guides in print or electronic formats. Subscribers get timely revisions when issued by industry committees as well as other conforming changes whenever major or minor changes are made to accounting and auditing standards. New guides will be

sent to subscribers several weeks before they are available in paperback. The electronic edition will allow subscribers to perform key-word searches using included search-and-retrieval software from FOLIO. The software requires an IBM-compatible personal computer with 640K of random access memory and a hard drive. Both 5.25-inch and 3.50-inch diskettes are included.

- Loose-leaf service (G01008) price: \$229; \$209.30 for members in education.
- Electronic version (G01009) price: \$299; \$209.30 for members in education.
- One-year subscription to combination print and electronic service (G01010): \$448.50; \$313.95 for members in education.

**Note:** A copy editing error was made in recent promotional brochures on the AICPA Audit and Accounting Guide loose-leaf service. No summaries of TPA questions, nor supplemental practice aids, nor EITF consensuses will be included.

The following publications are available to members and non-members alike:

- **The Audit and Accounting Update Handbook (029616)** is a compact reference guide to authoritative accounting and auditing pronouncements issued within the past two years. Price: \$65; \$52 for members.
- **The 1990 Tax Practice Guides and Checklists (059504)** includes guidance and checklists for individuals, partnerships, corporations, S corporations, fiduciaries, passive activities, employee benefits, and tax-exempt organizations. It does not include guidance on issues relating to the Revenue Reconciliation Act of 1990. Price: \$40; \$32 for members. Also available on IBM PC-compatible disks for WordPerfect (059519)—price: \$40; \$32 for members; APG Tax Library Volume 1 (016830)—price: \$27.50; \$22 for members. (A copy was sent to each Tax Division member.)
- A technical consulting practice aid, **Microcomputer Security (055128)**, is issued by the AICPA MAS Division to help practitioners and members in industry understand computer security and develop policies and procedures to safeguard microcomputer hardware, software, and data. Price: \$12.50; \$10 for members. (A copy was sent to each MAS Division member.)

**To order publications**, write to the AICPA Order Department, CPA 1190, P.O. Box 1003, New York, N.Y. 10108-1003 or send in your order via fax machine, 212/575-6841. Or call 800/334-6961, or 800/248-0445 in New York State. Ask for Operator CPA 1190. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., Eastern time. Prices do not include shipping and handling.



***Five Members Expelled; Five Suspended; One Admonished; One Reinstated***

■ At a meeting of a hearing panel of the Joint Trial Board in New York on Oct. 3, 1989, Fred W. Prall of Bloomington, Ind., was expelled from memberships in the AICPA and the Indiana CPA Society for failing to cooperate with the Institute's Professional Ethics Division in its attempt to investigate allegations of his failure to comply with generally accepted government auditing standards in his audit of the financial statements of a client. Prall had previously been notified by the Joint Trial Board that his continued failure to cooperate with the Professional Ethics Division would result in a trial board hearing.

Prall, who was not present at the hearing, requested a review of the decision and submitted, through counsel, information supporting his request. An ad hoc committee met on Oct. 4, 1990, and voted that his request be denied. Prall's expulsions from the AICPA and the Indiana CPA Society therefore became effective on Oct. 4, 1990.

■ At a meeting of a hearing panel of the Joint Trial Board in Chicago on July 19, 1990, Charles Jensen of Romulus, Mich., was expelled from memberships in the AICPA and the Michigan Association of CPAs for failing to comply with generally accepted auditing standards and failing to follow standards and procedures required in governmental audits in connection with a city community development audit for the period ended June 30, 1985. Jensen, who was not present at the hearing but who was advised in writing of the panel's decision, did not request a review of the decision, which, therefore, became effective on Aug. 18, 1990.

■ At a meeting of a hearing panel of the Joint Trial Board on Aug. 16, 1990, in Dallas, Arnold G. Simon of Miami was expelled from memberships in the AICPA and the Florida Institute of CPAs for violating AICPA and Florida Institute of CPA bylaws by failing to cooperate with the Florida Institute's Committee on Professional Ethics in its attempt to investigate his conduct in connection with a complaint alleging his failure to file a client's tax returns.

At separate hearings on the same day the hearing panel voted:

■ To expel Douglas R. Turner of Littleton, Colo., from membership in the AICPA and to recommend to the Board of Directors of the Colorado Society of CPAs that he be expelled from membership in the Colorado Society. Turner was found guilty of violating AICPA and Colorado Society bylaws by failing to cooperate with the AICPA Professional Ethics Division in its investigation of his conduct in connection with a newspaper article that indicated that he had been accused by the Justice Department of illegally diverting funds from a federal program while he was employed by the Department of Housing and Urban Development.

■ To admonish Garrett Vogel of Dallas, for violating the Rules of Professional Conduct of the AICPA and Texas Society of CPAs in that he withdrew funds to which he was not entitled from an employee benefit fund of which he was a trustee.

The respondents were not present at their hearings but were advised in writing of the hearing panel's decisions. They did not request a review, and the decisions, therefore, became effective on Sept. 15, 1990.

■ At a meeting of a hearing panel of the Joint Trial Board in New York on Dec. 14, 1989, John Clements of New York was suspended for two years for failing to follow the hearing panel's directive to cooperate with the AICPA's Professional Ethics Division in its attempt to investigate a complaint against him. At a trial board hearing on March 13, 1989, Clements was found guilty of violating the bylaw requiring cooperation with ethics investigations, was admonished by the panel, and directed to cooperate with the Professional Ethics Division. If he did not follow the panel's directive, the matter was to be referred back to the panel for further action. (*The CPA Letter*, June 5, 1989.)

Clements, who was represented by counsel at the Dec. 14 hearing, requested a review of the hearing panel's decision, which stayed the decision from becoming effective pending the outcome of the request for review. The request was withdrawn by Clements on July 18, 1990, and the two-year suspension of his membership became effective on that date.

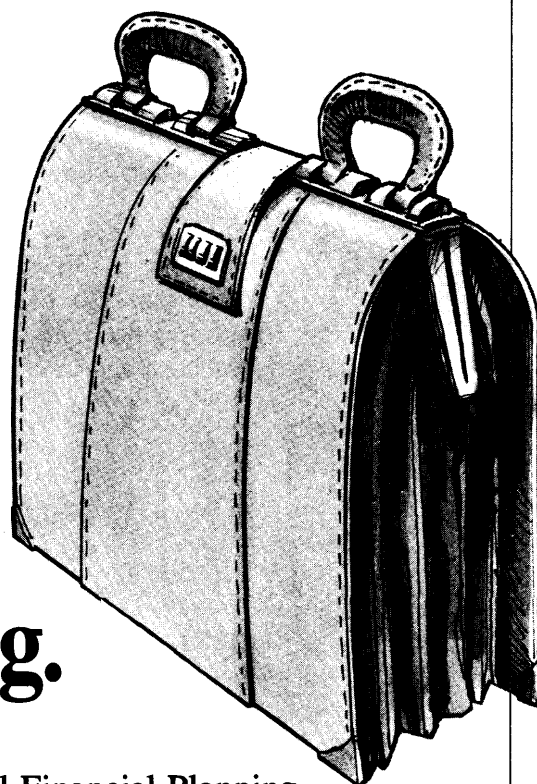
■ The membership of Richard Paul Franke of Phoenix, Ariz., was terminated on July 31, 1990, under the automatic disciplinary provisions of the Institute's bylaws following the revocation of his CPA certificate by the Arizona State Board of Accountancy. Franke's certificate was revoked upon receipt by the Arizona State Board of a copy of an Order of the SEC that permanently denied Franke the privilege of practicing before the SEC as an independent public accountant, following its finding that "he had engaged in improper professional conduct in performing an audit that was not in accordance with generally accepted auditing standards and that he had been a willing victim of 'opinion shopping.' "

■ James A. Galinsky of Des Moines, Iowa, was suspended from membership on July 19, 1990, upon the denial by an ad hoc committee of his request that the automatic disciplinary provision of the Institute's bylaws not apply in his circumstances. Galinsky has appealed his sentence following his conviction in a U.S. District Court of possession with intent to distribute cocaine and of tax evasion.

■ Under the Institute's bylaws, membership shall be suspended without a hearing if a member's CPA certificate is suspended as a disciplinary measure by any governmental authority. The following members were suspended from membership due to the suspensions of their CPA certificates by their state boards of accountancy: Pablo T. Malana of Cerritos, Calif., for 30 days beginning July 11, 1990, for violating the California Code of Regulations by making false and misleading statements as to material matters in certifying the experience of an applicant for certification by the California State Board of Accountancy. Also, Terry Lee Baer of Mesa, Ariz., and Vernon Steven

**Personal  
Financial  
Planning**

**Think of us  
as your partner  
in personal  
financial  
planning.**



Join the AICPA's Personal Financial Planning Division and get the information, guidance and support you need to help you build a successful financial planning practice.

***For just \$90\*, you'll receive these benefits:***

- A three-volume *PFP Manual* and updated practice aids. Developed by CPAs, the manual provides information and advice on the marketing, management and technical aspects of your practice.
- Our bimonthly newsletter, *The Planner*, will help you keep pace with changes in financial planning and upcoming professional issues.
- A discount of \$115 off the registration fee to the Division's annual PFP Technical Conference.
- Legislative support to protect your interests and foster a healthy business environment for financial planning.
- An assertive public awareness program to increase the visibility of CPAs as financial planners.

For more information about the PFP Division and the benefits of membership, call 1-800-969-PFP1. Or, complete the postage-paid enrollment form on the reverse side.

*\*Prorated membership ending 7/31/91. Yearly membership \$115.*

**Personal  
Financial  
Planning**

**Yes.** *I'm interested in the PFP Division!*

☐

I would like to know more about the PFP Division. Please send me information on membership benefits.

☐

Enroll me as a member of the Personal Financial Planning Division. I understand that the \$90 fee entitles me to all membership benefits, including the three-volume *PFP Manual* and subscription to *The Planner*. I agree to remit payment upon receipt of your invoice.

Name

AICPA Member No.

Firm

Address

City

State

Zip Code

Signature

▼ PLEASE FOLD AND STAPLE ▼

From: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



NO POSTAGE  
NECESSARY  
IF MAILED  
IN THE  
UNITED STATES

**BUSINESS REPLY MAIL**

FIRST CLASS PERMIT NO. 72 NEW YORK, N.Y.

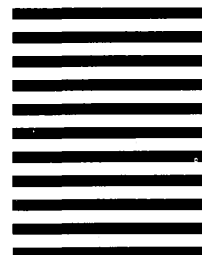
POSTAGE WILL BE PAID BY ADDRESSEE

**AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS**

Attn: Personal Financial Planning Division

P.O. Box 1016

New York, NY 10109-1016



## Disciplinary Actions Continued

Schweigert of Phoenix, Ariz., were suspended for an indefinite period beginning Sept. 2, 1990, for failing to comply with the continuing education requirements of the Arizona State Board of Accountancy.

■ **Member reinstated**—The membership of William Ray

Setterlund, Jr., of Sacramento, Calif., was reinstated as of Oct. 6, 1989, following receipt of evidence that his conviction of failing to file a tax return had been set aside. Setterlund's membership had previously been terminated effective Oct. 6, 1989, based upon the conviction.

## MEETINGS AND CONFERENCES

**The Governmental Accounting and Auditing Update Conference** is for practitioners, senior financial officers or government officials dealing with accounting and auditing problems in federal, state, and local governments, and for those at schools receiving federal assistance. The conference will focus on new pronouncements and emerging developments, including Circular A-133 from the federal Office of Management and Budget. Dates and location: Dec. 6-7, San Francisco. Registration: \$375. Recommended CPE credit: 16 hours. For registration and information, call 800/242-7269, or 212/575-5696 in New York State.

**The National Accounting and Auditing Conference on Employee Benefit Plans** is for practitioners and others involved with employee benefit plans. Topics will include an update on current employee benefit plan accounting, auditing, and reporting matters; current legislative actions; and the concerns of the Pension and Welfare Benefits Administration and the U.S. Department of Labor, Office of the Inspector General. Dates and location: Dec. 10-11, Ramada Renaissance Techworld, Washington, D.C. Registration: \$495. Recommended

CPE credit: 16 hours. For information, call 212/575-6451.

**The AICPA National Conference on Federal Taxes** is for tax practitioners who want to familiarize themselves with the most significant tax developments of 1990, including the Revenue Reconciliation Act of 1990, tax planning, and business and personal planning. Dates and location: Jan. 7-8, Fairmont Hotel, San Francisco. Registration: \$495. Recommended CPE credit: 16 hours. For information, call 800/242-7269, or 212/575-5696 in New York State.

**The AICPA Annual Tax Season Update Conference** is for tax practitioners seeking a practical approach to tax-season work and help in enhancing year-round practice profitability. A new session, the "Tax Life Passages Panel," will outline new engagement opportunities arising from the tax and financial issues clients face in life. Dates and location: Jan. 10-11, Buena Vista Palace, Orlando. Registration: \$495. Recommended CPE credit: 16 hours. For registration and information, call 800/242-7269, or 212/575-5696 in New York State.

## Public Meeting Notices

**The Quality Review Executive Committee** will do the following when it meets on Dec. 4 and 5 at the Loews Anatole Hotel in Dallas:

### December 4

**Afternoon:** Evaluate the Society of Louisiana CPAs' pilot program; discuss procedures for off-site reviews; discuss proposed interpretation defining engagements with significant public interest, including ERISA audits; discuss updates to the *Engagement Checklists* for new pronouncements and the 2nd edition of the *State Society Administrative Manual*.

### December 5

**Morning:** Discuss proposed inspection guidelines; discuss reviewers' comments and performance ratings.

**The Professional Ethics Executive Committee** will do the following when it meets on Dec. 6 at the AICPA in New York:

Consider for exposure a proposed ruling under rules 302 and 503, "Application of Rules 302 and 503 to a Member's Spouse"; consider proposed ruling under rules 302

and 503, "Definition of the Receipt of a Contingent Fee or a Commission"; consider proposed ruling under rule 101, "Member As a Lessee"; consider proposed revision of ruling no. 175 (ET S591), "Bank Director"; consider whether to adopt and publish the eight proposals contained in the July 23, 1990, omnibus exposure draft; consider whether to adopt and publish the revision of ruling no. 14 under rule 101, "Member on Board of Directors of United Fund"; consider for readoption interpretation 302-1, "meaning of the phrase, 'the Findings of Governmental Agencies,' as stated in rule 302 of the Rules of Conduct."

**The Auditing Standards Board** will tentatively do the following when it meets on Dec. 13 at the AICPA in New York:

Discuss reporting on management's report on the effectiveness of an entity's internal control structure; discuss the proposed statement on auditing standards, *Communication About Matters Involving Interim Financial Information Filed or to Be Filed with Specified Regulatory Agencies*.

For further information about the agenda, please call the Auditing Standards Division, 212/575-3850.

***Move to Require Reports on Internal Controls Fails***

House and Senate negotiators dropped provisions from the final version of the Omnibus Crime bill that would have required publicly held companies and their outside auditors to report on internal management controls (*The CPA Letter*, October). The provisions also would have required direct reporting by the auditor to the SEC in unusual circumstances. The AICPA supported the amendment.

***Fiscal Year-end Legislation Dropped from Tax Bill***

Congress did not include a measure to change the rules governing the election and retention of fiscal tax year-ends in the final budget and tax bill. It was eliminated from the Revenue Reconciliation Act of 1990 when uncertainty developed in the final hours of debate about whether the proposal was revenue neutral. The AICPA and the state societies led the effort to change the rules.

Congressional negotiators asked the IRS to study the heavy year-end workload on CPAs and seek solutions. The AICPA anticipates being an active participant in the deliberations.

***New Estate-Freeze Rules a "Modest Improvement"***

New rules issued in place of IRC Section 2036(c) are only a modest improvement in the way assets of family businesses can be transferred to the next generation, said Donald H. Skadden, AICPA vice president-taxation. Section 2036(c) threatened the preservation of family businesses because it eliminated the estate valuation freeze technique used when family businesses transfer ownership to the next generation. In its place, Congress adopted a complex set of valuation guidelines that are not a long-term answer to the problem, Skadden said.

The AICPA will continue efforts to have Congress consider the tax policies regarding transferring family-business assets and will also work to improve the new estate-freeze provisions.

***Civil RICO Reform Bills Not Enacted***

Another congressional session has ended without reform of the Racketeer Influenced and Corrupt Organizations Act (RICO). Both the House and Senate judiciary committees had approved versions of bills that would have brought meaningful reform to the statute. But neither bill passed because a few legislators said the revisions would benefit certain individuals connected with failed savings and loans.

AICPA efforts to amend the act have heightened the awareness among members of Congress, the courts, the media, and the public about the inequities of the law. In some recent RICO decisions, courts have issued favorable rulings curtailing broad, indiscriminate application of the statute.

***OMB Revises Compliance Supplement***

The Office of Management and Budget (OMB) has revised the *Compliance Supplement for Single Audits of State and Local Governments*. Replacing one issued in April 1985, the supplement describes major compliance requirements and describes audit procedures for testing the requirements. Federal departments and agencies consider that these audit procedures will meet the compliance testing requirements of OMB Circular A-128, *Audits of State and Local Governments*. They are neither exclusive nor mandatory. Auditors should apply professional judgment in choosing procedures and ensure that modifications required by changes in laws or regulations are included. For more information, see the *Federal Register*, Oct. 25.

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

# The CPA Letter

## A News Report to Members

### Highlights of What's Inside

SEC Is Seeking a New  
Chief Accountant 2

CPE Deadline Is a  
Reality for All Members 3

Government Auditors  
Also Need to Have CPE 3

Notices to Firms 4

New "Basic"  
Insurance Policy  
Being Offered 4

Tax Season  
Materials Available 5

Special Report: Audit  
Risk Alert—1990 6

Labor Department Levies  
Fines for Improper  
Benefit-Plan Reporting 12

### Proposed IRS Regulations Threaten S Corporations

***Even trivial differences could result in termination of election***

A retroactive effective date on proposed IRS regulations regarding the one-class-of-stock requirement for S corporations potentially jeopardizes every S corporation election in existence since 1982.

The proposed regulations under IRC section 1361 provide that "non-conforming distributions" to shareholders will generally result in an S corporation being treated as having more than one class of stock. Because an S corporation is permitted only one class of stock, any non-conforming distributions would invalidate the S election. Taken to the extreme, if a corporation paid a personal expense for a shareholder in 1983, the S election would be invalid from that point forward. No *de minimis* rule exists. Even trivial differences could result

A retroactive effective date on proposed IRS regulations regarding the one-

in termination of the election. For details on the proposed regulations, see the *Federal Register*, Oct. 5.

The AICPA understands from informal conversations with IRS representatives that taxpayers should wait for final regulations before filing requests for inadvertent termination relief. However, future transactions should be structured in accordance with the proposed regulations.

The AICPA's S Corporation Taxation Committee is urging the IRS to withdraw the proposed regulations. An IRS hearing is scheduled for Feb. 15 (see the *Federal Register*, Dec. 24 for details).

For a copy of the committee's comments to the IRS, send a 9-inch by 12-inch envelope with \$1.05 in postage to Patricia M. Hale, technical manager, AICPA, 1455 Pennsylvania Ave. N.W., Suite 400, Washington, D.C. 20004-1007.

### Creation of Information Technology Division Recommended

***Division would aim to raise the competence of members meeting the challenges of technology***

The AICPA Board of Directors has recommended that the governing Council vote on the formation of an Information Technology Division when it meets in May. The division is being proposed in response to a thrust in the AICPA's 1988 Report of the Strategic Planning Committee "to develop a major focus on the technological needs of members." The division would include a voluntary member section and would aim to raise the competence of members meeting the challenges of technology.

In other actions at its meeting Dec. 6 and 7, the board:

- Reaffirmed its decision to conduct a member ballot on amending Rules 505 and 301. Amending Rule 505, Form of Practice and Name, would allow CPAs to practice in corporations formed

under the corporation law; revising Rule 301, Confidential Client Information, involves clarifying the applicability of the rule.

- Received a preliminary report from the Governance and Structure Evaluation and Implementation Committee. The committee plans to submit another report to the board in February and discuss its recommendations at regional meetings of Council in March.

- Approved modifications to the AICPA group and disability insurance plans. The changes include: increasing the maximum coverage in the group insurance plan to \$300,000 depending on the applicant's medical history and age; permitting new employees to begin their life insurance coverage immediately or at the end of a six-month waiting period; and offering a new, shorter option 13-week waiting period in the disability insurance plan.

► **SEC Is Seeking a New Chief Accountant**

The SEC is accepting applications for the position of chief accountant, a senior executive and key policy position. Edmund Coulson, who has served as chief accountant for three years, will resign after the first of the year to join Ernst & Young as a partner. For further information about the position, contact Susan Baumann at 202/272-2704.

► **Director General Named to Head International Accountancy Group**

John W. Gruner has been named director general of the International Federation of Accountants (IFAC). He is to succeed Robert N. Sempier who will retire on March 1. Gruner is an audit partner with Deloitte & Touche and has been with the firm since 1972. Half of his professional career includes international service. He has lived and worked in Belgium, Brazil, and France and in the firm's international department in New York. Formed in 1977, IFAC has as its objective the development and enhancement of a coordinated worldwide accountancy profession with harmonized standards. It represents 105 national professional accountancy bodies in 78 countries.

► **Members Wanted for AICPA Committees**

Members who wish to volunteer for one of the approximately 600 AICPA committee openings that are expected to become available starting in October 1991, should write to: Committee Appointments Coordinator, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775 (no phone calls, please). Interested members will receive a booklet listing current committees and their objectives, the approximate time commitment involved, and a biographical form to complete. Any AICPA member wishing to be considered for the 1991-92 committee year should return the biographical form by Feb. 15.

► **AICPA Disciplinary Action**

**Member suspended**—At a meeting of a hearing panel of the Joint Trial Board in New York on Aug. 13, 1990, Warren A. Essner of Elmont, N.Y., was found guilty of violating the AICPA's Code of Professional Conduct by failing to exercise due professional care in the performance of an engagement for a client and by failing to obtain sufficient relevant data to afford a reasonable basis for conclusions in relation to the engagement. Before reaching its guilty finding, the hearing panel voted to deny Essner's request to resign from membership in the AICPA. The panel also voted unanimously that he be suspended from membership in the Institute for two years. Present with counsel at the hearing, Essner did not request a review of the decision, which therefore became effective on Sept. 12, 1990.

► **Government Accountants Announce Grants; Seek Award Nominations**

The Education and Research Foundation of the Association of Government Accountants (AGA) has funds available to support research in governmental financial management. The foundation also is accepting nominations for its At-Large, AGA Member, and Lifetime Research Achiever awards. The At-Large and AGA Achiever awards are for contributing significantly to governmental financial management by conducting research during the two years ended Dec. 31, 1990. Lifetime Research Achiever awards are made to individuals who have made continuous contributions throughout their careers to governmental financial management by directly participating in research and supporting research by others. For information on both programs, write to the Research Committee, AGA Education and Research Foundation, P.O. Box 2711, Springfield, Va. 22152 or call Tom Sadowski, 314/751-3100.

► **Omnibus Statement to be Published in Journal of Accountancy**

*Omnibus Statement on Auditing Standards—1990* (SAS No. 64) will be published in the Official Releases section of the February issue of the *Journal of Accountancy*. (SASs will no longer be mailed to all members on a "gratis" basis—see the following "Notice to Members Regarding SASs").

Among other things, the omnibus revises SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (effective for auditors' reports issued after Dec. 31, 1990). SAS No. 59 requires an explanatory paragraph in the auditor's report when the auditor concludes there is substantial doubt about the entity's ability to continue as a going concern. The omnibus SAS requires that auditors use the phrase "substantial doubt about the entity's ability to continue as a going concern" in an explanatory paragraph of the report when expressing that conclusion, or use similar language including the words "substantial doubt" and "going concern." The SEC expects auditors to state their conclusions in a manner consistent with this amendment (*The CPA Letter*, June 8). See "Going-Concern Matters," Page 8.

► **Notice to Members Regarding SASs**

SASs will no longer be mailed to members on a "gratis" basis. As they are issued, SASs are published in the Official Releases section of the *Journal of Accountancy* and are incorporated into updates of *AICPA Professional Standards*. They also are available for sale through the AICPA Order Department, P.O. Box 1003, New York, N.Y. 10108-1003 (or call 800/334-6961, or 800/248-0445 in New York State).

*The CPA Letter* will continue to announce the publication of all SASs when they are issued.

---

## AICPA Asks Bush to Appoint CPAs Under CFO Act

The AICPA has asked President Bush to appoint CPAs when filling new jobs created under the Chief Financial Officers Act of 1990. "The first step in effective implementation of the act should be the appointment of highly qualified persons to the financial management positions identified in the act," said AICPA Deputy Chairman-Federal Affairs B. Z. Lee in a letter to the president Nov. 20.

"In our view, CPAs would be best equipped to serve in these positions. CPAs are uniquely qualified for these jobs by their training and experience in matters relating to accounting, auditing, and internal control systems," Lee said. "We believe that, if effectively implemented, this legislation will mark the beginning of a serious effort to improve the quality, reliability, and timeliness of government financial information."

The culmination of years of work by Congress, the administration, the AICPA, and others, the act was signed into law on Nov. 15. It incorporates most of the recommendations of the AICPA's Task Force on Improving Federal Financial Management. Specifically, the act:

- Establishes an office of federal financial management within the federal Office of Management and Budget (OMB) to be headed by a controller appointed by the president;
- Requires that major departments and agencies have a CFO and a deputy CFO;
- Requires the OMB director to prepare, implement, and update annually a governmentwide five-year financial management plan; and
- Creates a schedule for certain agencies to develop and issue audited financial statements.

---

## CPE Deadline Is a Reality for All AICPA Members

Notice to members: Dec. 31 marks the end of the first year of the AICPA's new requirement that all members participate in a minimum number of hours of continuing professional education. By this date, members in public practice should have completed at least 20 hours of CPE, and members not in public practice should have completed a minimum of 10 hours. Members who have not completed the minimum annual requirement for 1990 will have a grace period of two months, through Feb. 28.

Those members who are complying with a state licensing or state society membership requirement may use their state reporting period and need not be concerned with the Dec. 31 deadline, provided that:

- The state requirement is for an average of 40 hours per year, at the minimum, for members in public practice, or 20 hours per year, at the minimum, for members not in public practice; and
- Members complete the minimum annual AICPA requirement.

Members will be asked to indicate their compliance with the AICPA requirement by checking the appropriate box on the 1991 dues statement.

For answers to questions about the wide range of programs that are acceptable under the new CPE requirement, write to Michelle Macrina, technical adviser, CPE Division, AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

## Government Auditors Also Need to Have Continuing Education

CPAs who have not met the General Accounting Office's "Yellow Book" CPE requirements by Dec. 31 should be aware that the CPE Division understands that the GAO is considering an interpretation of those CPE requirements that would allow for a two-month grace period, through Feb. 28.

Any government auditors who still need CPE hours to satisfy the 24-hour minimum requirement should call the CPE Division's CPE Information Hotline, 800/242-7269, or 212/575-5696 in New York State. Ask for a list of self-study courses in government accounting and auditing. To process self-study CPE credits by Feb. 28, the AICPA must receive all self-study answer sheets for these courses by Feb. 21.

## Florida Rejects Petition to Prohibit CPAs from Pension Activities

The Florida Supreme Court has rejected a proposed opinion from the Florida Bar Association that would have prohibited CPAs from engaging in a variety of pension activities. The opinion would have prohibited CPAs from determining what kind of plan would be best suited for a client, drafting plan documents, and terminating plans. The AICPA and the Florida Institute of CPAs filed briefs in the case. The court cited specific language from the AICPA's brief when it ruled that the proposed opinion improperly sought to regulate conduct specifically permitted under federal law.

## Three Business Groups to Study International Capital Markets

The Fédération Internationale des Bourses de Valeurs, the International Federation of Accountants, and the International Bar Association Section on Business Law have agreed to cooperate in studying world capital markets. The groups will consider developments, proposals for regulation, and other matters affecting transnational investment and transnational acquisition of capital and that promote investor confidence internationally and enhance investor protection. The three organizations represent the world's principal stock exchanges and the world's leading professional accountancy bodies and law firms.



## ***Reviewers Needed for Quality Reviews and Peer Reviews***

More reviewers are needed. More than 10,000 quality reviews and peer reviews are to be scheduled for 1991. Members who serve as reviewers usually find that they, as well as the reviewed firms, benefit from the experience.

Members who wish to serve as reviewers need to submit a reviewer résumé form to the AICPA Quality Review Division. A copy of this form was recently mailed to the managing partners, shareholders, or proprietors of firms that have an accounting or auditing practice.

Generally, a reviewer must be a member of the AICPA; be licensed to practice as a CPA; have at least five years of experience in the accounting and auditing function that culminated in a position of partner, shareholder, proprietor, or manager; and possess current knowledge of professional standards. Additional qualifications are set forth in the standards governing the quality review and peer review programs.

The Quality Review Executive Committee and the Peer Review Committee hope that members will take advantage of this opportunity to perform this important

type of professional engagement by adding their names to the national reviewer data bank. If you are interested in being a reviewer, check with the managing partner of your firm for a copy of the résumé form. If your firm did not receive a form in the mail, please write to: Jacqueline Oliveri, AICPA Quality Review Division, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

## ***Forms for Scheduling Reviews Should be Returned Promptly***

The AICPA Quality Review Division and state CPA societies participating in the administration of the quality review program have recently mailed Request for Scheduling Information forms to firms due for a quality review or a PCPS or SECPS peer review in 1991. This form asks for information needed to schedule the more than 10,000 peer reviews and quality reviews expected in 1991. Returning the forms promptly is important. Follow-up letters and telephone calls are costly for the AICPA and annoying to members.

## ***Member Services***

**New "Basic" Liability Policy Available for Local Practitioners**—The Professional Liability Insurance Plan Committee has announced the availability of a new "basic" policy designed for local practitioners who provide tax, write-up, and bookkeeping services. The policy will be written at a limit of \$100,000 and have a \$500 deductible. The coverage is offered to firms with five or fewer total staff members and generating annual billings of as much as \$250,000. For information and an application, call Rollins, Burdick, Hunter, 800/221-3023.

**Liability Insurance Rates Drop Again**—Rates for the AICPA Professional Liability Insurance Plan will be reduced for the second consecutive year. Many insured in the plan will realize a premium savings of as much as 20%, subject to circumstances in their practice. In addition, premium financing also has been reduced.

**Insurance Trust Refund to Be Paid**—The AICPA Life Insurance/Disability Plans Committee of the AICPA Insurance Trust recently announced that arrangements have been made to pay the 1991 refund in February. All subscribers to the trust are reminded that the distribution is expected to include taxable income for calendar year 1990.

## ***AICPA Public Meeting Notices***

**The Accounting and Review Services Committee** tentatively will do the following when it meets Jan. 10 and 11 at the Longboat Key Hilton Hotel in Longboat Key, Fla.: Consider an interpretation of Statements on Standards for Accounting and Review Services (SSARS) No. 6, *Reporting on Personal Financial Statements Included in Personal Financial Plans*; consider an interpretation of SSARS No. 1, *Compilation and Review of Financial Statements*, clarifying the applicability of this standard to litigation service engagements; and discuss other matters.

**The Accounting Standards Executive Committee** is scheduled to meet Jan. 29 to 30 at the AICPA in New York. For details on the committee's agenda, call 212/575-6369 after Jan. 3.

**The Personal Financial Planning Executive Committee** will tentatively do the following when it meets on Feb. 15 at the Westin Canal Place Hotel in New Orleans from 8:00 am. to noon: Discuss two draft Statements on Responsibilities in PFP Practice, or levels of service and implementation of personal financial plans.

## ***Nominees Sought for Outstanding Accounting Educator Award***

The AICPA is seeking nominations for its Outstanding Accounting Educator Award. The annual award is designed to recognize a full-time college accounting educator distinguished for excellence in classroom

teaching and for active involvement in the accounting profession. Nominees are submitted to the AICPA by the state CPA societies. Any member can nominate an educator by calling or writing to the executive director in one's state.

**1990 Tax Highlights for Individuals—Update and Selected Review** (003550) is a new manual that includes updates of legislation, cases, and rulings after July 30, 1989, including the Revenue Reconciliation Act of 1989. It also includes indexing adjustments, prior law phase-in provisions effective in 1990, changes in 1990 tax forms and schedules, and highlights of the Revenue Reconciliation Act of 1990. Price: \$50; \$40 for members.

**Tax Practice Management Manual** (029540) is a loose leaf reference manual that includes ideas and advice on the management and administration of a tax practice. Topics include how to tighten up internal procedures, improve client services, increase profits, and accelerate growth. It will be updated automatically each year. Price: \$145; \$116 for members.

**Automobile Expense Diary** (066028) is a pocket-size booklet that allows users to keep IRS-preferred records for claiming the use of an automobile in business. Available with your firm imprint, it helps eliminate problems of inadequate proof. Price: \$72 for 50 (the minimum order); \$109 for 75; \$130 for 100; \$30 for each additional 25 copies. No member discount available.

The following materials are designed to help tax practitioners meet their clients' needs for information about filing their 1990 tax returns.

■ **Relief for Tax Season Jitters: Answers to Your Most Common Tax Questions** (product number 889540) is a two-color, eight-panel brochure covering a range of topics, including tax tips for homeowners and information on charitable contributions. Price: \$15 for 100.

■ **The Art of Preparing Tax Returns** (889559) is a slide presentation of 35 color slides and a related script. Topics range from basic tax deductions to recent changes affecting 1990 tax returns. The brochure, "Relief for Tax Season Jitters," can be used as a handout during this presentation. Price for the first set: \$125; for each additional set: \$65. (All additional copies must be ordered at once for the discount to apply. No returns will be accepted.)

■ **A Tax Season Expedition** (889544) is a 25- to 30-minute speech for general audiences. It offers an overview of what every taxpayer needs to know before preparing a tax return. The speech also comes with a media interview guide, including 10 questions similar to those CPAs may be asked during interviews with reporters or on talk shows. Price: \$3.50 (must be prepaid).

**Organizational Documents, A Guide for Partnerships and Professional Corporations**, contains a sample partnership agreement and corporate documents. Available in print and electronic formats, it provides guidance when drafting organizational agreements and identifies, analyzes, and compares the foremost business characteristics of each form of practice. Book version alone (012640): \$25; \$20 for members. WordPerfect version (090091):

\$40; \$32 for members; ASCII version (090090): \$40; \$32 for members; book and WordPerfect set (090096): \$60; \$48 for members; book and ASCII set (090095): \$60; \$48 for members.

**Accountants Business Manual** (029418) is a loose leaf manual of information and guidance in a wide range of nonaccounting business subjects. Subscribers will receive new chapters twice each year. Sections will be updated automatically to reflect changes. Price: \$172.50; \$138 for members.

**The Accounting Profession in Canada** (010037) is the second edition of a booklet first issued in 1987. Among other things, it describes the accounting and auditing standards in Canada and compares them with those generally accepted in the United States. Price: \$27.50; \$22 for members.

**Statement of Position 90-6, Directors' Examinations of Banks** (014843), supersedes certain parts of the audit and accounting guide, *Audits of Banks*. Price: \$5; \$4 for members.

**SOP 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code** (014844). Price: \$5; \$4 for members.

**SOP 90-8, Financial Accounting and Reporting by Continuing Care Retirement Communities** (014845). Price \$5; \$4 for members.

**SOP 90-9, The Auditor's Consideration of the Internal Control Structure Used in Administering Federal Financial Assistance Programs Under the Single Audit Act** (014846), updates the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*, and supersedes example 26 in SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units*. Price \$5; \$4 to members.

**Guidelines for Voluntary Tax Practice Review** (024010) contains checklists and instructions to help practitioners create and assess a quality control system for tax practices. Firms can use the book to perform self-assessment and firm-on-firm tax practice reviews. Questions about using the book may be directed to: Staff Aide, Tax Practice Management Committee, AICPA Tax Division, 1455 Pennsylvania Ave., N.W., Suite 400, Washington, D.C. 20004-1007. Price: \$50; \$40 for members. (One free copy was mailed last month to each Tax Division member.)

**To order products**, write to the AICPA Order Department, CPA 1290, P.O. Box 1003, New York, N.Y. 10108-1003. You may also send your order via fax machine, 212/575-6841. Or call 800/334-6961, or 800/248-0445 in New York State. Ask for Operator CPA 1290. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., Eastern Standard Time. Prices do not include shipping and handling.

## A General Update on Economic, Industry, Regulatory, and Accounting and Auditing Matters

*Issued by the Auditing Standards Division of the AICPA*

**NOTICE TO READERS** *This audit risk alert is intended to provide auditors with an overview of recent economic, industry, regulatory, and professional developments that may affect the audits they perform. This document has been prepared by the AICPA staff. This document has not been approved, disapproved, or otherwise acted upon by a senior technical committee of the AICPA.*

DAN M. GUY  
Vice President  
Auditing Standards Division

JEANNE M. MEBUS  
Technical Manager  
Auditing Standards Division

**INTRODUCTION** *This alert is intended to help auditors in finalizing their planning for 1990 year-end audits. Successful audits are a result of a number of factors, including acceptance of clients with integrity, adequate partner involvement in planning and performing audits, an appropriate level of professional skepticism, and the allocation of sufficient audit resources to high-risk areas. Addressing these factors in each audit engagement requires substantial professional judgment based, in part, on a knowledge of professional standards and current developments in business and government.*

*It is important to make sure that written audit programs are adequately tailored to reflect each client's circumstances, including areas of greater audit risk. This alert identifies areas that, based on current information and trends, may be relevant to many 1990 year-end audits. Although it does not provide a complete list of risk factors to be considered, and the items discussed do not affect risk in every audit, this alert can be used as a planning tool for considering matters that may be especially significant for 1990 audits.*

## Economic Developments

### *The Current Economic Downturn*

Dramatic events in the Persian Gulf and around the world have raised many questions and concerns for American companies. Rising oil prices, lower consumer demand, and reduced availability of capital are just some of the factors affecting companies in all industries. Auditors should take these economic factors into consideration and be aware of the ways in which clients have been affected by them as well as of the potential, if any, of a going-concern problem.

### *Business Failures on the Rise*

The current illiquidity in the junk-bond market, coupled with the continuing tightening of credit by lenders throughout the country, have made it substantially more difficult for prospective borrowers to obtain financing, particularly for highly leveraged companies. A recent article in *The Wall Street Journal* called attention to increases in bankruptcy filings, particularly in the real estate, apparel, retailing, and construction industries, due in large part to the weakening cash flow of many businesses as well as the more cautious credit environment. Some industries are becoming very risky undertakings. For example, in 1990, the number of restaurant closings exceeded the number of openings; increased competition has made it

nearly impossible to raise menu prices, while costs have continued to increase, especially those for energy, insurance, and wages.

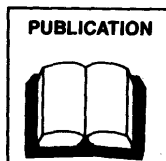
The effects of the economic slowdown will vary across geographic regions and industries, and among companies even within the same industry. Therefore, auditors need to focus specifically on the environment of each client and address each client's particular issues accordingly. Nevertheless, many companies will be unable to pass on increased costs (particularly increased oil prices and medical expenses) due, in part, to increasing competition and softening demand for their products. This could make it difficult for companies to report favorable operating results for the year. With this in mind, auditors should be even more sensitive this year to ongoing issues that affect operating results, such as the collectibility of receivables and the potential obsolescence and realizability of inventories.

Highly leveraged companies are particularly vulnerable to a downturn in business activity and the other factors discussed above. Auditors should consider these circumstances when evaluating the ability of highly leveraged clients to continue as going concerns.

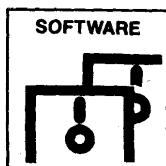
*The AICPA's new primary vehicle for communicating specialized financial reporting practices and auditing procedures for entities in particular industries is*

## **AUDIT & ACCOUNTING GUIDE SERVICE.**

The guide service currently includes all 26 current industry and other audit and accounting guides in print or electronic formats. Subscribers get timely updates of the Audit and Accounting Guide materials, including changes in response to the issuance of new audit and accounting pronouncements, as well as annual Audit Risk Alerts. New guides are sent to subscribers several weeks before they are available in paperback.



The publication of the guides in loose-leaf format allows changes to the guides to be made as needed, without revision of the entire guide. This service also contains the most current edition of the general and industry Audit Risk Alerts along with guide-related Statements of Position.



The electronic edition will allow subscribers to perform key-word searches and eliminate time-consuming information inquiries by employing advance search and retrieval software from Folio Corporation. Constantly monitored and updated, current information is integrated into existing software, and revised program disks are sent on a periodic basis.

### **ALL GUIDES HAVE BEEN RECENTLY UPDATED TO REFER TO CHANGES IN AUTHORITATIVE PRONOUNCEMENTS.**

#### **VOLUME 1**

##### **General Guides**

Audit Sampling  
Computer-Assisted Audit Techniques  
Consideration of the Internal Control Structure in a Financial Statement Audit  
Guide for Prospective Financial Statements  
Guide for the Use of Real Estate Appraisal Information  
Personal Financial Statements

##### **Industry Guides**

Audits of Agricultural Producers and Agricultural Cooperatives  
Audits of Airlines  
Audits of Casinos  
Audits of Entities with Oil and Gas Producing Activities  
Audits of Federal Government Contractors  
Audits of State and Local Governmental Units Including Audits of Federal Assistance  
Construction Contractors

##### **Audit Risk Alerts**

#### **VOLUME 2**

##### **Industry Guides**

Audits of Certain Nonprofit Organizations  
Audits of Colleges and Universities  
Audits of Voluntary Health and Welfare Organizations  
Audits of Banks  
Audits of Brokers and Dealers in Securities  
Audits of Credit Unions  
Audits of Employee Benefit Plans  
Audits of Finance Companies—Including Independent and Captive Financing Activities of Other Companies  
Audits of Investment Companies  
Audits of Property and Liability Insurance Companies  
Audits of Stock Life Insurance Companies  
Savings and Loan Associations

##### **Audit Risk Alerts**

##### **Last Report Letter**

##### **One Year Subscription January-December 1991**

Loose-leaf Service	(G01008)	\$299.00
Electronic Version	(G01009)	\$299.00
Both Services	(G01010)	\$448.50
A savings of \$149.50		

*\*Ordering Information on Reverse Side.*

**NOTE: Prices listed on this brochure are for AICPA members only.**

The AICPA's

## Small Firm Library Series...

The audit system designed for small CPA firms that includes integrated audit programs, workpapers, model letters, forms and checklists that can lead you through the audit process efficiently and in accordance with today's audit and quality control standards.

The contents of the manuals will be monitored by the newly established PCPS Audit Manual Advisory Task Force who will make recommendations to enhance the manuals on an ongoing basis from the perspective of the smaller firm. All manuals will be updated at least every July and the updates will be sent to you automatically. The loose-leaf format enables you to easily keep the manuals up-to-date.

You can use the *Small Firm Library Series* with the AICPA's popular Audit Program Generator 2.0 compatible diskettes that contain the programs, checklists and forms from the *Small Firm Library Series*. This means you can easily tailor your audit programs to fit your clients' specific circumstances.

- **Comprehensive Engagement Manual**

By George Marthinuss, CPA, Larry L. Perry, CPA, Jack Hauptman, CPA, and Moshe S. Levitin, CPA  
No. 008801 AICPA members \$290.00  
Order before February 1, 1991 and pay only \$190.00 (includes manual and the first update).

- **Small Business Audit Manual**

By George Marthinuss, CPA, Larry L. Perry, CPA and Neil Selden, CPA  
No. 008803 AICPA members \$100.00  
Order before February 1, 1991 and pay only \$70.00 (includes manual and the first update).

- **Bank Audit Manual**

By George Marthinuss, CPA, Larry L. Perry, CPA, Neil Selden, CPA, and J. Byrne Kelly, CPA  
No. 008804 AICPA members \$150.00  
Order before February 1, 1991 and pay only \$110.00 (includes manual and the first update).

- **Construction Contractors' Audit Manual**

By George Marthinuss, CPA, Larry L. Perry, CPA, and Martin S. Safran, CPA  
No. 008802 AICPA members \$100.00  
Order before February 1, 1991 and pay only \$70.00 (includes manual and the first update).

### Audit Program Generator 2.0 Small Firm Library Diskettes (Requires APG 2.0)

**Volume 1 Comprehensive Engagement Manual**  
No. 016970 \$22.00

**Volume 2 Small Business Audit Manual**  
No. 016971 \$22.00

**Volume 3 Bank Audit Manual**  
No. 016972 \$22.00

**Volume 4 Construction Contractors' Audit Manual**  
No. 016973 \$22.00

**Audit Program Generator 2.0**  
No. 016297 \$236.00

### PASSED PCPS\* PEER REVIEW

\*The PCPS is the Private Companies Practice Section of the AICPA's Division for CPA Firms.

#### -----ORDER FORM FOR AICPA MEMBERS ONLY-----

#### How To Order

Call Toll Free: 1-800-334-6961 and ask for Operator CPA 1290. In New York State call: 1-800-248-0445.

When ordering by phone, be prepared to give operator title, product number and your AICPA membership number and MasterCard or VISA number and expiration date.

Or complete the order form and return to AICPA Order Dept., P.O. Box 1003, New York, NY 10108-1003.

Name \_\_\_\_\_ Member Number \_\_\_\_\_

Firm \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

\*For Small Firm Library Series only: Add 8 1/4 % sales tax in New York City. Elsewhere in New York State add 4 % tax plus local tax if applicable. In Washington, DC, add 6 % tax, and in Vermont add 4 % state tax.  
Shipping and Handling Fees: \$10.01-\$25: \$3.95; \$25.01-\$50: \$4.95; \$50.01-\$150: \$5.95; over \$150: 4 % of total.

#### PAYMENT METHOD

CPA 1290

☐ Payment enclosed ☐ MasterCard ☐ VISA

☐ Bill directly

Card account number \_\_\_\_\_ Exp. date \_\_\_\_\_

Signature \_\_\_\_\_

QTY	TITLE	PRODUCT NUMBER	PRICE
Please use separate page for additional titles.			Subtotal
Add Shipping & Handling Fee*			
Sales Tax*			
Net Total			

## A Special Report from the AICPA Industry Committee

### *Industry Committee Affirms Its Support for a Management Accounting Division*

During its meeting in October, the Industry Committee affirmed its support for the proposed technical division for management accounting. As proposed by the Special Committee on Governance and Structure, the division would be headed by an executive committee whose first charge would be to develop a structure and a strategy for the division to best meet the management-accounting needs of AICPA members.

The committee also supported the formation of a Members in Industry Executive Committee. The executive committee would create and coordinate appropriate subcommittees and advise AICPA divisions and the AICPA Board of Directors on matters of interest to industry members.

While considering the special committee's report, the Industry Committee did the following:

- Agreed that the subject matter for the Management Accounting Division should be new and effective methods of gathering and organizing the information needed for management decision making;

- Recommended that the Management Accounting Division evaluate existing management accounting practices and communicate the results of its evaluation to members in industry and others involved in management accounting; and

- Agreed that an important role of a subcommittee of the proposed Members in Industry Executive Committee would be to help industry members deal with changes in the international arena.

Attending the meeting was Richard E. Piluso, former chairman of the Industry Committee and current AICPA treasurer. Piluso is a member of the AICPA Governance and Structure Evaluation and Implementation Committee, which is studying the special committee's report and preparing recommendations for the AICPA Board of Directors. The evaluation and implementation committee plans to reach a consensus on the more than 40 recommendations in the special committee's report so that its findings can be discussed at regional Council meetings in March and at a meeting of the full governing Council in May.

### *New Program Offers Certificate of Educational Achievement in Financial Management*

A new educational program developed specifically for members in industry will be available through many state societies in June. Developed by members in industry, the new program includes six two-day courses and leads to a Certificate of Educational Achievement (CEA) in Financial Management.

The objective of the Financial Management CEA is to enable participants to apply, implement, and evaluate strategic financial management concepts and techniques. Assuming that the participants will have a background in auditing and financial accounting, the six courses were developed to provide more in-depth training in a variety of other areas. The six courses are: financial planning and control; strategic cash management; financial, strategic and practical management of human resources; management

accounting for the 1990s; global finance and multinational financial management; and creating shareholder value.

Open only to participants in the CEA program, the six courses carry a total of 96 hours of CPE credit. To enroll, participants must have at least five years of professional experience, including some experience in private industry and a minimum of two years as a supervisor.

The development of the Financial Management CEA is a sign of the ongoing efforts of the AICPA to increase the availability of high quality relevant CPE for members in industry.

For more information about the CEA program or other CPE offerings for industry members, call the CPE Information Hotline, 800/242-7269, or 212/575-5696 in New York State.

### *National CPE Curriculum Being Updated for Members in Industry*

The AICPA's Task Force to Update the National Curriculum for Members in Industry wants to know what kinds of continuing professional education members in industry need. It also wants to know what new developments affect the educational needs of CPAs in industry.

The task force of former Industry Committee members and AICPA staff is updating the curriculum, known as the National Continuing Professional Education Curriculum: A Pathway to Excellence, specifically to reflect the needs of members in industry. The curriculum

serves as a guide to the AICPA and others who develop, plan, schedule, and classify CPE courses. It is also used by state boards of accountancy to evaluate acceptable CPE.

The revisions will lead to the development of CPE programs that are more timely, practical, and relevant to the work of CPAs in industry. Although the entire undertaking will require several years of work, interim changes could begin to affect course development almost immediately.

(continued on next page)

The charge of the task force is to review all of the learning units in the industry field and other relevant units in all other fields of study. The task force may suggest that a unit be updated to include recent developments, that new units be added, or that units be reclassified in different categories.

Members in industry who wish to comment may write to Thomas J. Lemmon, technical manager, Industry and Practice Management Division, or to Ann Elizabeth Sammon, technical editor, CPE Division. The address for both is: AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

### ***Format for Annual National Industry Conference Expanded***

In response to a growing need for relevant, cost-effective continuing education, the 1991 National Industry Conference will be expanded to 2½ days from 2 days and will allow for a maximum of 20 CPE credits. Under the new format, participants will be able to attend eight separate concurrent sessions on a wide variety of subjects. The conference will be held at the Pointe at South Mountain in Phoenix, April 25 to 27.

Some of the topics to be covered are:

- Leadership;
- Opportunities in Eastern Europe;
- Improving Negotiation Skills Without Manipulation;

- Evaluating Insurance Program Alternatives;
- Managing with Shrinking Resources;
- Health Care Cost Containment Strategies;
- Disaster Planning and Recovery Strategies;
- Alternative Financing for Small Business; and
- SEC Accounting Update and Look Ahead.

For more information about the National Industry Conference, write to the AICPA Meetings & Travel Division, 1211 Avenue of the Americas, New York, N.Y. 10036-8775, or call 212/575-6451.

### ***New Publications Address Professional Issues***

#### ***One Contains Selected Articles; Another Addresses Health Care Costs***

*Selected Readings for CPAs in Industry* is the second two-volume edition of a collection of reprinted articles addressing various technical and professional issues. Recognizing the wide range of responsibilities of CPAs who work as financial managers, the committee chose articles on such technical topics as financial reporting, managerial accounting, taxes, and information systems. The management articles cover such subjects as human resources, employee benefits, strategic planning, and corporate governance. The two-volume format of *Selected Readings* allows readers to focus on either technical or management themes. The articles are taken from such publications as *CFO*, *Corporate Finance*, *Harvard Business Review*, *Financial Executive*, *Inc.*, *Industry Week*, *Management Accounting*, *Management Review*, and *The Corporate Board*. Some of the article titles are:

- "Telecommunication in the 1990s";
- "Ten Myths About Implementing an Activity-Based Cost System";
- "The Manager's Job: Folklore and Fact";
- "Diversity in the Workplace";
- "Getting Paid: How to Make Collecting Bills as Much a Part of Daily Business as Making Sales";
- "What's the FASB Doing About International Accounting Standards?";
- "Creating the Computer Integrated Enterprise";
- "Common Pitfalls in Business Interruption Insurance";
- "Tapping the Private Placement Market";
- "Rehabilitating Workers' Compensation Using Cost Containment";

- "Ethics and Professionalism: The CPA in Industry"; and
- "ESOP Accounting: Past, Present and Future."

When ordering, refer to the following product numbers: Volume 1, Management (090014), \$35 (\$28 for AICPA Members); Volume 2, Technical (090013), \$35 (\$28 for members); or two-volume set, (090015), \$50 (\$40 for members). See order information below.

***Holding Down Health Care Costs: A Guide for The Financial Executive*** (090050) was commissioned by the Industry Committee to help financial executives understand and combat the problem of rising employee health care costs. The first publication in a series about issues important to CPAs in industry, the book was written by John Reynolds, a health care cost consultant to businesses. The book describes the nature and extent of the health care crisis and why containing health costs must be a top priority for American businesses. It also explains the six major forces causing costs to rise; reviews eight strategies employers can use to contain costs; and offers practical suggestions for managing what often seem to be unmanageable problems. Price: \$12.50; \$10 for members. It will be available by Feb. 1.

To order publications, write to the AICPA Order Department, CPA 1290, P.O. Box 1003, New York, N.Y. 10108-1003. You may also send your order via fax machine, 212/575-6841. Or call 800/334-6961, or 800/248-0445 in New York State. Ask for Operator CPA 1290. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., Eastern Standard Time. Prices do not include shipping and handling.

---

### ***Economic Considerations Relating to Debt***

Adverse developments in the economy in general, or in a particular financial institution, may cause an institution to refuse to renew loans, to exercise demand clauses (such as the due-on-demand clause), or to decline to waive covenant violations. In addition, these developments may make it more difficult for companies to obtain alternate sources of financing than in the past. In these cases, the

the auditor should consider the borrower's classification of the liability, potential going-concern issues, management's plans (such as those for alternate financing or asset disposition), and the adequacy of disclosures in the borrower's financial statements. Securities and Exchange Commission (SEC) rules contain specific disclosure requirements in Management's Discussion and Analysis (MD&A) about liquidity and material uncertainties.

---

## **Regulatory and Legislative Developments**

### ***Environmental Liabilities***

The Environmental Protection Agency is empowered by law (through the Superfund legislation) to seek recovery from anyone who ever owned or operated a particular contaminated site, or anyone who ever generated or transported hazardous materials to a site (these parties are commonly referred to as potentially responsible parties, or PRPs). Potentially, the liability can extend to subsequent owners or to the parent company of a PRP.

In connection with audit planning, the auditor should consider making inquiries of management about whether a client (or any of its subsidiaries) has been designated as a PRP or otherwise has a high risk of exposure to environmental liabilities. If a client has been designated as a PRP, the auditor should consider whether any amount should be accrued for cleanup costs and assess the need for disclosure and, possibly, for the inclusion of an explanatory fourth paragraph in the audit report citing the uncertainty, if management is unable to make reasonable estimates of the costs. In addition, for public entities, disclosure should be made in MD&A of estimates of cleanup costs or the reasons why the matter will not have a material effect.

Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*, and Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*, provide guidance for the accounting and disclosure of loss contingencies, including those related to environmental issues. The FASB's Emerging Issues Task Force (EITF) reached a consensus in Issue 90-8, *Capitalization of Costs to Treat Environmental Contamination*, that, generally, the costs incurred to treat environmental contamination should be expensed and may be capitalized only if specific criteria are met.

### ***Notification of Termination of Auditor-Client Relationship***

The SEC staff has observed instances in which CPA firms have not notified the SEC's Chief Accountant when an auditor-client relationship ends. Under a rule effective May 1, 1989, member firms of the SEC Practice Section of the AICPA Division for Firms must notify the SEC directly by letter within five business days after the auditor resigns, declines to stand for re-election, or is dismissed.

---

## **New Auditing Pronouncements**

### ***Implementing SAS No. 55 on Internal Control***

AICPA Statement on Auditing Standards (SAS) No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit*, is effective for audit periods beginning on or after Jan. 1, 1990. Auditors who did not apply its provisions early are faced with implementation for Dec. 31, 1990, year-end audits.

To help auditors with questions that may arise, the Auditing Standards Board (ASB) issued the audit guide, *Consideration of the Internal Control Structure in a Financial Statement Audit*. The guide presents two preliminary audit strategies for assessing control risk and uses three hypothetical companies ranging from a small, owner-managed business to a large public company to illustrate how the strategies affect the nature, timing, and extent of procedures. Particularly helpful is a series of exhibits that includes sample workpapers documenting the hypothetical companies' compliance with SAS No. 55. To order a copy of the guide (product number 012450),

see Page 11, "How to Order Products." Price: \$25; \$20 for members.

### ***New Financial Institutions Confirmation Form***

The AICPA will replace the existing 1966 Standard Bank Confirmation Inquiry. The new form will provide only confirmation of deposit and loan balances. To confirm other transactions and arrangements, auditors will have to send a separate letter, signed by the client, to a financial institution official responsible for the financial institution's relationship with the client or knowledgeable about the transactions or arrangements. Anyone ordering the new standard form (product number 057509) from the AICPA Order Department will receive a copy of a notice to practitioners, which describes the revisions to the process of confirming information with financial institutions, and illustrative letters for confirming some of these types of transactions or arrangements. The new form should be used for confirmations mailed on or after March 31, 1991. Practitioners should neither use the new form before March 31, 1991, nor use the old form on or after that date.

(continued on page 8)



---

## ***New SAS on Internal Auditing***

In January 1991, the ASB will issue a new SAS, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, that will provide practitioners with expanded guidance when considering the work of internal auditors. Many internal audit activities are relevant to an audit of financial statements because they provide evidence about the design and effectiveness of internal control structure policies and procedures or provide direct evidence about misstatements of financial data contained in financial statements. The SAS is effective for audits of financial statements for periods beginning on or after Jan. 1, 1991, and will include guidance to assist auditors in obtaining an understanding of the internal audit function, assessing the competence and objectivity of internal auditors, and determining the extent to which they may consider work performed by internal auditors. The SAS supersedes SAS No. 9, *The Effect of an Internal Audit Function on the Scope of the Independent Audit*, and incorporates the terminology and concepts of more recent SASs, particularly SAS No. 55.

### ***Forthcoming Guidance on Circular A-133***

On March 8, 1990, the Office of Management and Budget (OMB) issued Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. The purpose of Circular A-133 is to establish audit requirements and to define federal responsibilities for implementing and monitoring audit requirements for institutions of

higher education and other nonprofit institutions receiving federal awards. Institutions covered by Circular A-133 generally include colleges and universities (and their affiliated hospitals) and other not-for-profit organizations, such as voluntary health and welfare organizations and other civic organizations.

The circular applies to nonprofit institutions that receive \$100,000 or more in federal awards (Circular A-133's definition of "financial awards" is broader than the term "financial assistance" used in SAS No. 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*). Non-profit institutions that receive at least \$25,000 but less than \$100,000 in federal financial assistance have the option of applying either the requirements of Circular A-133 or separate program audit requirements. For institutions receiving less than \$25,000, records must be kept and made available for review, if requested, but the provisions of the circular do not apply.

In the first quarter of 1991, the AICPA's Auditing Standards Division plans to expose a statement of position, prepared by a subcommittee of the AICPA Not-for-Profit Organizations Committee, that will provide guidance about compliance-auditing requirements in Circular A-133. Circular A-133 is effective for audits of fiscal years beginning on or after Jan. 1, 1990. Since the circular permits biennial audits, some institutions may not be required to follow its requirements until the audit of their financial statements for the fiscal year ending June 30, 1992.

---

## **Audit Reporting and Communication Issues**

### ***Reporting on Uncertainties***

Some auditors have issued an unqualified report with an additional paragraph about the existence of an uncertainty in situations when a qualified or adverse opinion should have been issued.

SAS No. 58, *Reports on Audited Financial Statements*, requires an auditor to add an explanatory paragraph (after the opinion paragraph) to the standard report when a matter is expected to be resolved at some future date, at which time sufficient evidence about its outcome is likely to be available. Examples of such uncertainties include lawsuits against the entity and tax claims by tax authorities when precedents are not clear. Because its resolution is prospective, sometimes management cannot estimate the effect of the uncertainty on the entity's financial statements. However, those uncertainties have, in some cases, been confused with other situations in which management asserts that it is unable to estimate certain financial statement elements, accounts, or items.

Generally, matters whose outcomes depend on the actions of management and relate to typical business operations are susceptible to reasonable estimation and, therefore, are estimates inherent in the accounting process, not uncertainties. Management's inability to estimate in

these situations should raise concerns about the possible use of inappropriate accounting principles or scope limitations. If the auditor believes that financial statements are materially misstated because of the use of inappropriate accounting principles, a qualified or adverse opinion is required due to the GAAP departure. A scope limitation should result in a qualified opinion or a disclaimer of opinion.

### ***Going-Concern Matters***

When an auditor concludes that there is substantial doubt about an entity's ability to continue as a going concern, SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, requires the auditor to include an explanatory paragraph (following the opinion paragraph) in the report to reflect that conclusion. Auditors have issued reports in which it is unclear whether they are expressing a conclusion that there is substantial doubt about an entity's ability to continue as a going concern.

For situations in which the auditor expresses such a conclusion, the ASB recently amended SAS No. 59 to require the use of the phrase "substantial doubt about the entity's ability to continue as a going concern" (or similar wording that includes the terms "substantial doubt" and "going concern") in the required explanatory paragraph.

---

### ***Required Communications to Audit Committees and Others Having Oversight Responsibility***

Instances have been noted in which auditors have overlooked the communication requirements of SAS No. 61, *Communication With Audit Committees*. This statement requires auditors to ensure that certain matters are communicated to audit committees or other groups with responsibility for oversight of the financial reporting process. SAS No. 61 applies to—

- Entities that have an audit committee or a formally designated group having oversight responsibility for financial reporting (for example, a finance or budget committee)
- All SEC engagements as defined in note 1 of the statement.

In considering the communications required by SAS No. 61, the auditor should also not overlook the communications required by the following:

---

### **Recurring Audit Problems**

#### ***Questionable Accounting Practices***

Managements of companies—public or private—might feel pressure to report favorable results—for example, to maintain a trend of growth in earnings, support or improve the price of the company's stock, obtain or maintain essential financing, or comply with debt covenants. This pressure is most likely to affect public companies, but auditors should not underestimate the pressures on nonpublic companies to “stretch” earnings or report a favorable financial condition—particularly in light of the current credit crunch. In most cases, the actions taken are well intentioned and believed to be appropriate by the company. However, in certain cases, the result is an inappropriate accounting practice.

The downturn in the economy may have an effect on the way a client conducts its business and carries out its revenue recognition policies. Auditors should be alert to facts and circumstances relating to revenue recognition policies that may not be appropriate such as—

- Changes in standard sales contracts permitting, for example, continuation of cancellation privileges
- Situations in which the seller has significant continuing involvement or the buyer has not made a sufficient financial commitment to demonstrate an intent or ability to pay
- Certain sales with a “bill and hold” agreement.

Revenue should not be recorded until it is realized or clearly realizable, the earnings process is complete, and its collection is reasonably assured.

The following are some other accounting practices that distort operating results or financial position:

- Improperly deferring typical period costs and expenses (for example, personnel, training, and moving costs) or

- SAS No. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities*
- SAS No. 54, *Illegal Acts by Clients* (see discussion below)
- SAS No. 60, *Communications of Internal Control Structure Related Matters Noted in an Audit*.

#### ***Illegal Acts***

SAS No. 54 provides guidance for communications with clients of possible illegal acts. The auditor has a responsibility to detect and report misstatements resulting from illegal acts having a direct and material effect on financial statement line-item amounts. Auditors may also become aware of other illegal acts that have, or are likely to have, occurred and that may not have a direct and material effect on financial statement amounts.

Auditors should assure themselves that all illegal acts that have come to their attention, unless clearly inconsequential, have been communicated to the audit committee or its equivalent (the board of trustees or an owner-manager) in accordance with SAS No. 54.

---

costs for which a specific quantifiable future benefit has not been determined

- Adjusting reserves without adequate support
- Nonaccrual of losses (for example, environmental liabilities) or inadequate disclosure in accordance with FASB Statement No. 5, *Accounting for Contingencies*
- Inadequate recognition of uninsured losses (for example, increased deductibles for workers' compensation or medical care)
- Using improper LIFO accounting practices, including inappropriate pools and intercompany transactions.

Competent and sufficient audit evidence continues to be the foundation for the auditor's opinion. Insufficient professional skepticism, illustrated by “auditing by conversation,” or failing to obtain solid evidence to back up management's representations, can lead to audit problems. In the final analysis, auditors need to step back and ask one of auditing's most fundamental questions: Does it make sense?

Problems also can occur due to errors in recording relatively straightforward transactions, particularly in those situations where cost-reduction and restructuring programs have reduced the number and quality of accounting personnel. The importance of principal audit procedures (for example, sales and inventory cut-off tests, searches for unrecorded liabilities, and follow-up on errors noted during tests) cannot be overemphasized. These types of procedures are fundamental and critical to the audit process.

Although clients may impose fee pressures or tight deadlines on auditors, these pressures do not change the professional responsibility to understand and audit the facts and situations carefully and to make professional, knowledgeable decisions.

(continued on page 10)

---

## **Communications Between Predecessor and Successor Auditors**

SAS No. 7, *Communications Between Predecessor and Successor Auditors*, establishes requirements for communications between predecessor and successor auditors when a change of auditors has taken place or is in process. It has been observed that the guidance provided by SAS No. 7 is sometimes not followed. It is essential that both predecessor and successor auditors are aware of, and adhere to, the requirements of SAS No. 7. For example, the predecessor auditor should respond promptly and fully to the successor's reasonable inquiries unless he or she indicates that the response is limited.

## **Part of Audit Performed by Other Independent Auditors**

In accordance with SAS No. 1 (AICPA, *Professional Standards*, vol. 1, AU sec. 543), in no circumstances should an auditor state or imply that an audit report making reference to another auditor is inferior in professional standing to a report without such a reference. When a principal auditor decides not to make reference to the work of another auditor, the extent of additional procedures

to be performed by the principal auditor may be affected by the other auditor's quality-control policies and procedures (see auditing interpretation "Part of Audit Performed by Other Auditors: Auditing Interpretations of AU Section 543" [AICPA, *Professional Standards*, vol. 1, AU sec. 9543.18]).

## **Attorney's Responses**

A letter of audit inquiry to the client's lawyer is the auditor's primary means of corroborating information furnished by management concerning litigation, claims, and assessments. Auditors should carefully read all letters from attorneys and ensure that all matters discussed are understood. Ambiguous and incomplete responses should be appropriately resolved with client management and attorneys, and conclusions should be properly documented. An auditing interpretation of SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*, presented in the AICPA's *Professional Standards*, vol. 1, AU sec. 9337.18, discusses what constitutes an acceptable reply. Additional inquiries may be needed if replies are not dated sufficiently close to the date of the audit report.

---

## **Pitfalls For Auditors**

Each year-end seems to abound with pitfalls for auditors. The following reminders are intended to alert auditors to some of these pitfalls.

- Watch out for large, unusual, one-time transactions, especially at or near year-end, that may be designed to ease short-term profit and cash flow pressures. Scrutinize each transaction to ensure validity of business purpose, timing of revenue or profit recognition, and adequacy of disclosure.
- In performing analytical procedures (for example, analyzing accounts, changes from period to period, and differences from expectations), maintain an attitude of objectivity and professional skepticism. Do not assume

that the accounts or client explanations are right. Rather, question, challenge, and compare new information with what is already known about the client and of business in general.

- Make sure that receivables that are supported by real estate as collateral reflect the softening of the market. Increases in the allowance for uncollectibles may be needed. Recognize that assets acquired through foreclosure may be overvalued and difficult to sell.
- Pay special attention to the collectibility of significant receivables from debtors that have recently gone through a leveraged buyout (LBO). A company is not the same entity that it was before an LBO.

---

## **Accounting Developments**

### **Financial Instruments Disclosure**

In March 1990, the FASB issued Statement No. 105, *Disclosure of Information About Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, effective for fiscal years ending after June 25, 1990. It applies to all entities, including small businesses (due to its requirement to disclose significant concentrations of credit risk arising from all financial instruments, including trade accounts receivable).

The statement applies to all financial instruments with off-balance-sheet risk of accounting loss and all

financial instruments with concentrations of credit risk, with some exceptions that are detailed in paragraphs 14 and 15 of the statement. It requires all entities with financial instruments that have off-balance-sheet risk to disclose the face, contract, or underlying principal involved; the nature and terms of the financial instrument; the accounting loss that could occur; and the entity's policy regarding collateral or other security and a description of the collateral.

### **Postretirement Benefits Other Than Pensions**

The FASB is expected to issue the final statement on postretirement benefits other than pensions in

December 1990. The proposed statement would significantly change the prevalent current practice of accounting for postretirement benefits on the "pay-as-you-go" (cash) basis by requiring accrual, during the years that employees render services, of the expected cost of providing those benefits to employees and their beneficiaries and covered dependents. This statement would be effective for calendar-year 1993 financial statements. An additional two-year delay would be provided for plans of non-U.S. companies and certain small employers.

In the SEC Staff Accounting Bulletin (SAB) No. 74, *Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period*, the SEC staff expressed its belief that disclosure of *impending* accounting changes is necessary to inform readers about expected effects on financial information to be reported in the future and should be made in accordance with existing MD&A

requirements. The SEC staff provided supplemental guidance regarding SAB No. 74 in the November 1990 EITF minutes.

### **Reporting When in Bankruptcy**

Statement of Position (SOP) 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, provides guidance for entities that have filed petitions with the Bankruptcy Court and expect to reorganize as going concerns under Chapter 11.

The SOP recommends that all such entities report the same way while reorganizing under Chapter 11, with the objective of reflecting their financial evolution. To do that, their financial statements should distinguish transactions and events that are directly associated with the reorganization from the operations of the ongoing business as it evolves.

The SOP generally becomes effective for financial statements of enterprises that have filed petitions under the Bankruptcy Code after Dec. 31, 1990.

## **Audit Risk Alerts**

The Auditing Standards Division is issuing Audit Risk Alerts to advise auditors of current economic, industry, regulatory, and professional developments that they should be aware of as they perform year-end audits. The following industries are covered:

- Airlines (022071)
- Agricultural producers and agricultural cooperatives (022073)
- Banking (022063)
- Casinos (022070)
- Construction contractors (022066)
- Credit unions (022061)
- Employee benefit plans (022055)
- Federal government contractors (022068)
- Finance companies (022060)
- Investment companies (022059)

- Life and health insurance companies (022058)
- Non-profit organizations, including colleges and universities and voluntary health and welfare organizations—**not expected to be available until March 1991**—(022074)
- Oil and gas producing activities (022069)
- Property and liability insurance companies (022072)
- Providers of health care services (022067)
- Savings and loan institutions (022076)
- Securities (022062)
- State and local governmental units (022056)

Copies of these industry updates will be included in the new loose-leaf service for audit and accounting guides (*The CPA Letter*, November). For order information, see below, "How to Order Products." Price: \$3; \$2.40 for members.

## **AICPA Services**

### **Technical Hotline**

The AICPA Technical Information Service answers inquiries about specific audit or accounting problems. Call 800/223-4158, or 800/522-5430 in New York State.

### **Ethics Division**

The AICPA's Ethics Division answers inquiries about the application of the AICPA Code of Professional Conduct. Auditors may call at any of the following numbers: 212/575-6217, 212/575-6299, or 212/575-6736.

### **How to Order Products**

To order products, write to the AICPA Order Department, CPA 1290, P.O. Box 1003, New York, N.Y. 10108-1003, or send your order via fax machine, 212/575-6841. Or call 800/334-6961, or 800/248-0445 in New York State. Ask for Operator CPA 1290. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., Eastern Standard Time.

**Labor Department Levies Fines for Improper Benefit Plan Reporting**

The Department of Labor has notified 17 employee benefit plan administrators that it intends to assess civil penalties of between \$50,000 and \$90,000 each for filing deficient annual reports for the 1988 reporting year. The assessment notices are the first under the department's recently implemented reporting compliance program, established to enforce statutory responsibilities under the Employee Retirement Income Security Act (ERISA). ERISA authorizes the department to assess fines of as much as \$1,000 a day against plan administrators who fail to file complete and timely annual reports. Using a new, automated system, all ERISA annual reports are screened for errors. About 33% of the 900,000 forms received for the 1988 filing year contained errors, the department said. Letters went to administrators of those plans, and most corrected the mistakes. Additional correspondence went to administrators whose filings remained uncorrected. Fines were imposed on plan administrators who still failed to correct deficiencies.

**Overseas Trade Missions Planned**

The U.S. Department of Commerce and the U.S. Small Business Administration will sponsor 10 "Matchmaker" trade missions next year for U.S. businesses seeking to do business in Europe, Canada, and Asia. On the matchmaker missions, officials from the Commerce Department and the SBA escort U.S. business professionals overseas to meet potential foreign buyers, agents, distributors, and partners. The program is particularly effective for novice exporters seeking to do business in a foreign country.

To be eligible, participants must: be new to exporting marketing in the countries being visited; send a company decision maker; sell products that are at least 51% American made; and pay their own travel expenses plus a fee of as much as \$1,600.

For more information, write to the U.S. Small Business Administration, Office of International Trade, 1441 L St., N.W., Washington, D.C. 20416, or call 202/653-7794.

**Revised Reporting Requirements Delayed for Corporate Nondividend Distributions**

For over a year, the IRS has been formulating new rules for obtaining an extension to file Form 5452, Corporate Report of Nondividend Distributions. IRS Announcement 90-131 reports a second one-year delay in implementing the revised procedures. Therefore, the pre-revision rules will continue to apply for nondividend distributions made in 1990. The AICPA has recommended to the IRS ways to improve compliance with filing Form 5452. Further details can be found in Announcement 90-131 in Internal Revenue Bulletin 1990-49, Dec. 3, and in Announcement 90-16 in Internal Revenue Bulletin 1990-7, Feb. 12.

**Miami CPA Named HUD's First Chief Financial Officer**

Secretary of Housing and Urban Development Jack Kemp has selected Phillip M. Kane of Miami Beach as HUD's first chief financial officer. Kane's selection culminates what Kemp described as an intensive nationwide search for a talented financial executive to join HUD's top management team. As vice-president and controller of Knight-Ridder newspapers, Kane guided the financial aspects of the negotiations that led to the joint operating agreement last year between the *Detroit Free Press* and the *Detroit News*.

**Conference on Small Business Planned for 1994**

Congress has enacted a law authorizing the President to call and conduct a National White House Conference on Small Business in 1994. Many of the recommendations from small business conferences in 1980 and 1986 later became federal policy, such as the research and development tax credit. CPAs are urged to get involved, either in planning or as delegates, alternates, or participants. Local offices of the Small Business Administration should note that you want to participate, and chambers of commerce and regional business associations may also help. The AICPA Washington office is working to involve members in the conference.

## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.